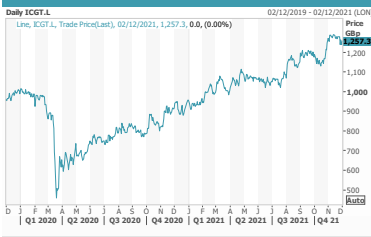




Closed End Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	ICGT
Price (p)	1,254
12m High (p)	1,298
12m Low (p)	864
Shares (m)	68.52
Mkt Cap (£m)	859
NAV p/sh (Jul21 adj, p)	1,523
Disc. to NAV	18%
Country of Listing	UK
Market	Premium equity closed end 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
Aud. Cte. Chr.	Alastair Bruce
NEDs	David Warnock (SID), Sandra Pajarola, Gerhard Fusenig
Inv. Mgrs.	Oliver Gardey, Colm Walsh
Contact	James Caddy +44 203 201 7700 www.icg-enterprise.co.uk

Key shareholders

None over 3%

Diary

Feb22 Oct update

Analyst

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ICG ENTERPRISE TRUST PLC

Intermediate Capital Group/ICGT: friends with benefits

This note analyses the unique advantages that Intermediate Capital Group (ICG plc) has brought to ICGT since becoming the manager in 2016 and contributing to the average constant-currency portfolio return of 21% since FY17. We note i) access to ICG plc funds/co-investments where ICGT is the only way for retail/small institutional investors to obtain this exposure, ii) access to a wider range of third-party funds/co-investment opportunities by virtue of its global network and reputation, iii) insights from investment teams at ICG, which cover the whole capital structure, and iv) wider benefits from the leveraging ICG plc's central platform.

- ▶ **Access:** ICG plc brings geographical spread and relationships that wants a one-stop financing solution. This brings enhanced returns with more co-investment opportunities (ICG plc/ICGT's co-investments are over 6x the proportion of the portfolio they were in 2017) and a bigger pool of PE funds in which to "fish".
- ▶ **Market insight:** ICG plc's scale and active presence across the whole capital structure give it insights into PE managers from a range of perspectives. Many are already ICG plc relationships, or transact with them. This gives an angle to manager / investment selection unavailable to most PE houses.
- ▶ **Valuation:** NAV valuations are conservative (uplifts on realisations averaging 35% long 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, and is above the levels seen pre-COVID-19. The yield is 1.8%.
- ▶ **Risks:** PE is an above-average cost model, but post-expense returns are market-beating. Even though actual experience has been of 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 since 2016. 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 to trade at a 18% discount to NAV.

Financial summary and valuation

Year-end Jan (£000)	2018	2019	2020	2021	2022E	2023E
Total income	22,386	5,969	7,441	6,594	13,684	14,948
Realised gains	(31,257)	9,329	14,686	(17,088)	18,151	19,836
Unrealised gains	91,381	76,440	70,974	201,159	108,907	119,018
Investment mgr. fees	(7,165)	(7,984)	(9,572)	(10,728)	(10,116)	(11,396)
Other expenses	(2,734)	(2,903)	(3,232)	(4,070)	(4,198)	(4,333)
Rtn. on ord. act. pre-tax	73,437	81,789	80,505	175,068	126,430	138,073
NAV per share (p)	959	1,057	1,152	1,384	1,543	1,717
NAV total return	12%	12%	11%	22%	14%	13%
S/P discount to NAV	-15%	-22%	-16%	-31%	-19%	-27%
Investments (£m)	576	670	778	908	992	1,110
Dividend per share (p)	21	22	23	24	27	28

Source: Hardman & Co Research

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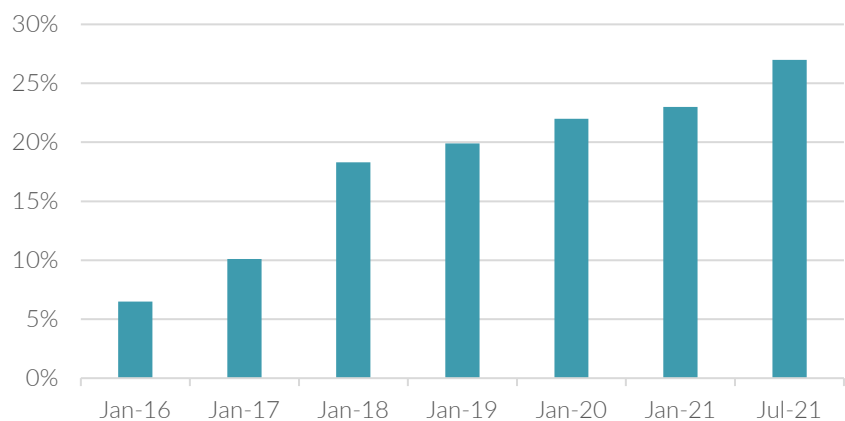
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Background

ICG plc managed investments c.4x the proportion of the portfolio they were when manager was appointed in 2016

On 1 February 2016, ICG plc was appointed manager, with the Graphite Capital fund investment team transferring to ICG and the company being renamed ICG Enterprise Trust plc. The fund had an established relationship with ICG plc, with 6.5% of the portfolio at end-January 2016 in ICG plc managed investments, including two of its top-20 fund investments (ICG European Fund 2006B and ICG Europe V). As the chart below demonstrates, since 2016, the proportion of ICGT's portfolio that is in ICG plc managed investments has risen nearly fivefold, and these investments now account for over a quarter of the book. ICGT is the only way that retail/small institutions can access these strategies.

% of portfolio in ICGT managed investments



Source: ICGT Report and Accounts, Hardman & Co Research

When transferring to ICG plc as manager, in 2016, ICGT identified five advantages: i) access to deals; ii) access to market intelligence; iii) secondary/co-investment opportunities, iv) central support; and v) lower fees. All have been delivered.

In 2016, ICGT's Chairman identified the benefits¹ of changing manager to ICG, as:

- ▶ "Access to a wider range of investment opportunities through ICG's global office network and local relationships".
- ▶ "Access to market intelligence from ICG's large international direct investment team".
- ▶ "Incremental secondary and co-investment opportunities resulting from ICG's greater scale".
- ▶ "Access to ICG's infrastructure expertise in areas such as treasury, investor relations and information technology".
- ▶ "A reduction in headline fund management fees and no fees on ICG funds".

We see incremental benefits in i) defensive culture, ii) credibility, and iii) ICGT investment managers do not have to buy into ICG plc managed funds, but can access whole market

In this note, we conclude that these identified benefits have been delivered in practice, giving ICGT competitive advantages, especially in deal origination in the higher-return secondary and co-investment strategies. In addition, we have identified the following incremental benefits:

- ▶ Defensive culture – being involved across the whole capital stack, ICG plc has a greater focus on downside protection than many investors.

¹ <https://www.icg-enterprise.co.uk/media/1033/annual-report-and-accounts-31-jan-2016.pdf>

- ▶ Credibility with managers, investee companies and investors.
- ▶ ICGT has a dedicated investment team. It has access to the ICG plc platform/knowledge but is an actively managed portfolio whose dedicated team has no obligation to invest in ICG plc funds if the team does not want to.

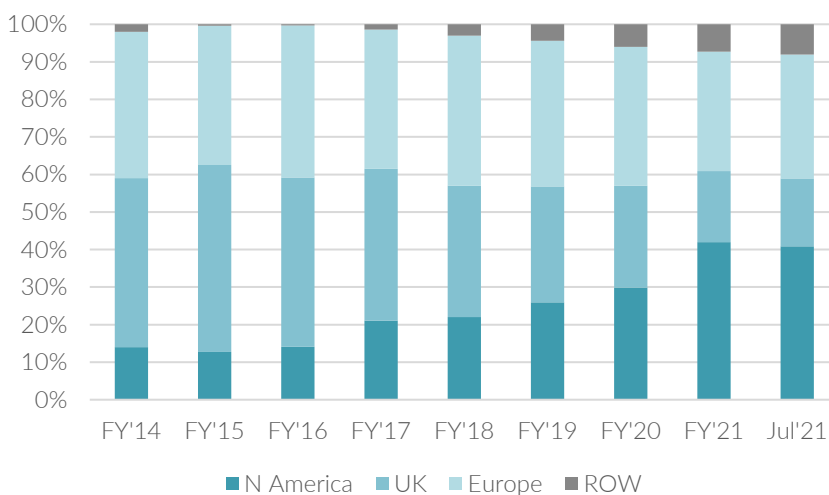
Access

A wider range of investment opportunities through ICG’s global office network and local relationships

North America and ROW now half portfolio, up from a sixth when ICG plc took over

ICG plc has nine offices in Europe, five in Asia Pacific, and one in each of New York (c.75 staff) and Dubai. The chart below shows the fundamental geographical shift in the portfolio since ICG plc became manager. The UK has reduced from c.40% of the portfolio to under 20%, while North America has risen by a commensurate amount.

Geographical distribution of portfolio



Source: ICGT Report and Accounts, Hardman & Co Research

Gives ICGT more choice on investments, access to deepest and higher-growth markets, and geographical diversity

The advantages to ICGT and its shareholders in accessing a wider range of geographies include:

- ▶ Greater access to the US/North America – the deepest and most mature PE market.
- ▶ Greater numbers of fund managers and deals from which to select. The greater pool means that ICGT can be even more selective on which investment strategies to follow, which should lead to enhanced performance.
- ▶ Diversification of risk.
- ▶ Access to higher-growth areas such as emerging markets. It should be noted that the geographical distribution is based off head offices of the investee companies. Many of the non-emerging market-domiciled businesses have exposure to them, with three of the top-five underlying companies in July being described as global, even though they are classified as UK, Norway and USA.

ICG plc brings market intelligence unavailable to many PE investors

ICG plc's financing businesses give ICGT's investment team unique insight into how PE managers think

Marked increase in co-investments as proportion of ICGT portfolio

Access to market intelligence and PE manager insight

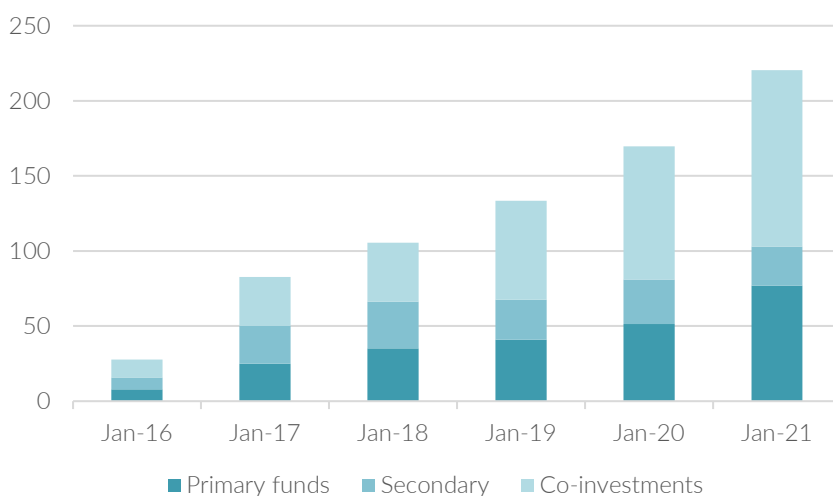
ICG plc's expertise in providing flexible financing solutions across the capital structure gives it market intelligence on the operating performance of companies, sectors, economies and management teams. This can prove invaluable in assessing the attractiveness of new propositions and gives ICGT investment managers an insight that may not be available to many PE houses.

Many of the PE managers themselves are ICG plc relationships or do transactions with them. This market intelligence gives a specific insight into General Partners (GPs) and PE managers, which is unavailable to most investors not least as internal insights may be more candid references from a third party. It can assess how the GP considers deal structures, business opportunities, managements and technology, etc. Having this insight gives the ICGT investment team a unique competitive advantage. By way of example of this working in practice, ICGT highlights how the strong relationship between ICG plc staff and Gridiron Capital that led to that GP's funds becoming part of the ICGT portfolio. The previous insights gained by ICG plc's North American investment team, meant ICGT had increased conviction in this US-based firm, which could be quickly on-boarded as well as giving ICGT a warm introduction to Gridiron.

Incremental secondary and co-investment opportunities resulting from ICG's greater scale

The chart below shows the mix of ICG plc managed investments held by ICGT since the mandate changed in 2016. There is absolute growth, ICG plc managed investments make up a much higher proportion of the total, and there has been a marked increase in co-investments as a proportion of the ICGT element of the portfolio (from 18% in FY17 to over 50% in FY21). *Prima facie*, this supports the claimed synergy of more co-investment opportunities.

Estimated mix of ICG primary and secondary funds and co-investments (£m)



Source: ICGT Report and Accounts and results presentations, Hardman & Co Research

ICG Enterprise Trust Plc

ICG plc's enormous franchise in Flexible financing solutions across the capital structure (1HFY'22 a record) sees many opportunities for equity in the deals. This generates a good pipeline of global opportunities for ICGT.

Certainty of finance, speed of decision-making, knowledge of working practices and incremental information flows make ICGT attractive as a partner for ICG

Secondaries attractive in terms of liquidity, less blind pool risk and shorter payback periods. On average, expect higher IRR but lower money multiple than primary investments.

In its recent results presentation², ICG plc noted that its fundraising in 1H22 (\$13.8bn) was a record, that the average fundraising over FY18-21 was \$10.5bn p.a. and that its deployment in 1H22 was \$8.4bn. ICG plc is present across significant elements of the capital stack. In terms of co-investments alongside ICG, a request for debt/mezzanine finance often leads to a structure involving equity, which may involve funding from ICG plc managed PE funds or ICGT directly. Having a single point of contact makes managing the facility easier for the company being financed, as well as accelerating the speed of decision-making.

From ICG plc's perspective, what it wants in a co-investing partner is i) that capital must be of the right size, certain and likely to be provided, ii) that it is set up to structurally respond quickly – knowledge of things like ESG constraints, because they are a shared policy, can be invaluable in knowing what may be acceptable as a co-investment, iii) a through-cycle investor, and iv) the ability and expertise to work through deal options and structures quickly and readily. Having an in-house partner with whom many deals have been completed ensures that all these attributes are enhanced. ICGT also has scale, and so may bring to ICG plc market information from its own involvement in other GPs, making the flow of market information two-way.

Key benefits to ICGT investing in ICG co-investments

Factor	Rationale
Financial returns	Co-investments typically offered with no/low fees or carried interest.
Robust deal flows /sensitivity	Large funnel and multiple sources of deal flow.
Portfolio management	Controlled timing of cash deployment. combined with ability to target exposures.
No blind-pool risk	Known asset is being invested in.

Source: Hardman & Co Research

Secondary market investments are attractive, with five key attractions.

- ▶ The secondary market is a liquid market.
- ▶ Typically, sales would be some years after the fund's launch, and after investments in the underlying companies were made. The assets are thus known. In addition to analysing the manager's skill in optimising value from the remainder of the PE value chain, a secondary buyer also needs expertise and resource to look at specific investments.
- ▶ Secondary investments have a shorter period before distributions are made, as the time to the sale of the underlying assets is reduced.
- ▶ The initial commitment of cash is immediate, allowing for a rapid portfolio management. There may be further calls from the fund but, usually, most investments have been made.
- ▶ The one-off valuation uplift on sale happens within a shorter timeframe.

On average, secondary investments are expected to have a higher IRR than primary investments (albeit a lower money multiple of cost, given the compounding benefit of holding high-growth assets over time). While secondary markets have attractions, accessing this market is critically dependent on having relationships with GPs in the primary market. What ICG plc brings to the table, again, is scale, credibility and market knowledge of the GPs and underlying companies.

² <https://www.icgam.com/~//media/Files/I/ICGAM-V2/results-centre/2022/ICG%20H1%20FY22%20Presentation.pdf>

Access to ICG plc’s central expertise

Whole range of central support means ICGT investment team can focus on investment, not administration

ICGT can access ICG plc’s central resources in areas such as treasury, investor relations, legal, finance and information technology. With the administrative burden absorbed by ICG plc’s platform, the dedicated investment team can focus on investing! From the outside, it is difficult to assess the internal benefits from these areas of expertise. We note the [1 March announcement](#) of a new four-year €200m revolving credit facility (replacing a €176m one) and understand that ICG treasury staff were heavily involved in its negotiation. Given the scale of ICG plc as a counterparty, one could expect ICGT to have negotiated better terms on this deal than it could as a standalone entity. In terms of investors’ current focus – ESG – again, ICGT has access to ICG plc’s ecosystem and team. ESG factors are a critical part of ICGT’s investment committee discussions/decision-making, but it can leverage the ESG-specific resources/tools in ICG plc rather than having to author a unique approach themselves.

Reduction in headline management fees

Saving on management fee c.£2m, 20bps p.a.

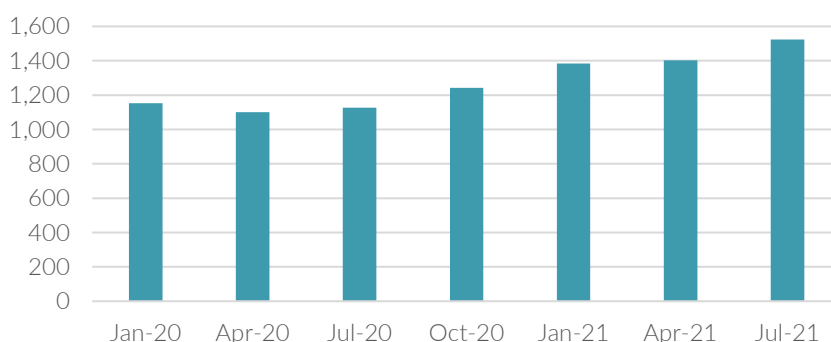
The investment management fee payable is calculated as 1.4% of the investment portfolio and 0.5% of outstanding commitments to funds in their investment periods, in both cases excluding the funds managed directly by ICG plc (see *Appendix*) and by the former manager of the company, Graphite Capital. At end-January 2021, the fair value of ICG plc fund investments was £103.5m, and outstanding commitments were £101.8m, making the saving on management fees from these £1.45m and £0.51m, respectively, and resulting in a saving of c.20bp on the total portfolio management fees. The charges and incentive arrangements for both ICG plc and Graphite managed funds are at the same level as those paid by third-party investors in the funds.

Downside-protection culture

ICG has a defensive culture

In our previous notes, we have highlighted ICGT’s outperformance through downturns, with just two negative NAV total return quarters since appointment. As the chart below demonstrates, through COVID-19, the NAV fell just 4% in one quarter. We believe an important part of delivering this sustainability of returns is a culture with a strong focus on the downside. ICG plc is relatively unique in providing flexible financing solutions across the capital structure. This includes both equity and debt markets. Debt markets, typically, have a focus on downside protection and ICG plc’s focus on downside protection alongside value creation marries very well with ICGT’s stated defensive growth policy.

ICGT NAV through COVID-19 pandemic (p per share)



Source: ICGT quarterly report, Hardman & Co Research

Credibility from being party of larger group

Credibility with third-party managers,

Familiarity with ICG plc may assist in potential third-party managers getting comfortable with ICGT. Having a backer that is well-known in the investing community can only be of assistance in getting allocations to fund/co-investment opportunities.

Investment decisions are not constrained by having to invest via ICG plc funds

ICGT independent investment team

ICGT's investment team has access to ICG plc's platform, but it is not required to invest in ICG plc managed assets. As such, it gets the benefits from the ICG plc market presence, but it can invest in any assets of its choice, independent of what the ICG team/position may be. At the same time, it benefits from access to ICG plc funds and investments with the unparalleled information flows identified earlier. We understand that the ICG plc and ICGT investment teams are co-located in London, reducing potential barriers to the effective communication of ideas, introductions and insights.

Financials

Income statement									
Year-end Jan (£000)	2021			2022E			2023E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends	1,367		1,367	4,538		4,538	4,959		4,959
Overseas interest & dividends	5,156		5,156	9,076		9,076	9,918		9,918
Deposit interest & other	71		71	71		71	71		71
Realised gains on investments		(17,088)	(17,088)		18,151	18,151		19,836	19,836
Unrealised gains on investments		201,159	201,159		108,907	108,907		119,018	119,018
FX gains & losses		(799)	(799)						
Investment manager fees	(2,682)	(8,046)	(10,728)	(2,529)	(7,587)	(10,116)	(2,849)	(8,547)	(11,396)
Other expenses	(2,129)	(1,941)	(4,070)	(2,257)	(1,941)	(4,198)	(2,392)	(1,941)	(4,333)
Return before finance costs & taxation	1,783	173,285	175,068	8,899	117,531	126,430	9,707	128,366	138,073
Interest payable & similar expenses	-	-	-	-	-	-	-	-	-
Return on ord. activities before taxation	1,783	173,285	175,068	8,899	117,531	126,430	9,707	128,366	138,073
Taxation	-	-	-	(1,513)	1,513	-	(1,650)	1,650	-
Return on ord. activities after taxation	1,783	173,285	175,068	7,386	119,044	126,430	8,057	130,016	138,073

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet									
@31 Jan (£000)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Non-current assets									
Unquoted investments	357,830	356,939	491,099	478,362	519,806	571,143	604,306	676,232	741,164
Quoted investments	4,962	0	364	1,733	1,655	1,231	35,702	1,410	1,410
Subsidiary investments	56,217	57,168	80,718	96,392	148,611	206,042	267,554	314,173	367,785
Total non-current assets	419,009	414,107	572,181	576,487	670,072	778,416	907,562	991,815	1,110,359
Current assets									
Cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	45,143	33,219	23,270
Receivables	4,177	4,038	2,384	10,410	548	1,142	162	33,087	43,379
Total assets	513,323	521,976	613,087	665,286	731,246	794,028	952,867	1,058,121	1,177,008
Creditors	6,459	634	354	963	386	483	851	851	851
Net assets	506,864	521,342	612,733	664,323	730,860	793,545	952,016	1,057,270	1,176,157
NAV per share (p)	695	731	871	959	1,057	1,152	1,384	1,543	1,717

Source: ICGT Report and Accounts, Hardman & Co Research

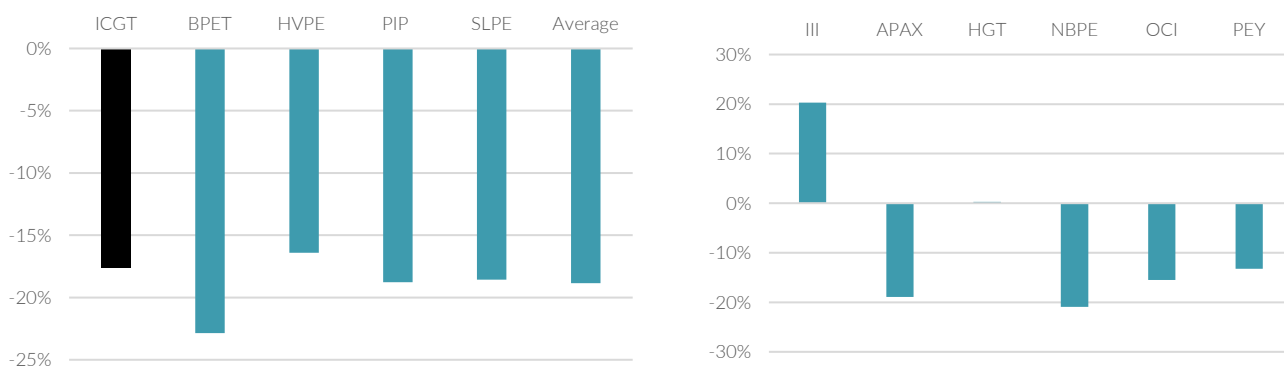
Cashflow									
Year-end Jan (£000)	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Sale of portfolio invests.	132,953	89,941	50,338	160,712	135,461	107,179	147,545	90,000	90,000
Purch. of portfolio invests.	(102,185)	(56,213)	(102,621)	(99,601)	(101,790)	(95,417)	(86,134)	(75,000)	(75,000)
Net cashflows to sub. invests.				(12,824)	(32,427)	(34,446)	(6,486)	(6,486)	(6,486)
Interest income	8,382	8,951	7,263	15,967	3,994	5,832	1,231	1,231	1,231
Dividend income	5,458	2,882	2,629	6,230	1,883	1,290	5,445	12,382	13,646
Other income	644	384	259	129	216	381	71	71	71
Invest. mgr. charges paid	(5,815)	(5,840)	(6,143)	(7,090)	(7,956)	(9,499)	(10,334)	(10,116)	(11,396)
Other expenses	(983)	(1,269)	(1,380)	(1,456)	(1,749)	(1,227)	(1,419)	(1,419)	(1,419)
Net cash inflow/(outflow) from op. activities	38,454	38,836	(49,655)	62,067	(2,368)	(25,907)	49,919	10,664	10,647
Cashflows from fin. activities									
Bank facility fee	(1,651)	(1,963)	(1,089)	(1,320)	(1,081)	(2,576)	(1,410)	(1,410)	(1,410)
Interest paid						(61)	(440)	0	0
Proceeds from borrowing							0	0	0
Purchase of shares into treasury	0	(9,110)	(6,201)	(7,810)	(709)	(2,628)	(775)	(2,675)	-
Dividends	(11,302)	(14,816)	(11,357)	(13,896)	(14,543)	(15,192)	(15,822)	(18,500)	(19,186)
Net cash inflow from fin. activities	(12,953)	(25,889)	(18,647)	(23,026)	(16,333)	(20,457)	(18,447)	(22,585)	(20,596)
Net increase in cash & cash equiv.	25,501	12,947	(68,302)	39,041	(18,701)	(46,364)	31,472	(11,922)	(9,949)
Opening cash & cash equiv.	65,390	90,137	103,831	38,522	78,389	60,626	14,470	45,142	33,219
FX effects	(754)	747	2,993	826	938	208	(799)	0	0
Closing cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	45,142	33,219	23,270

Source: ICGT Report and Accounts, Hardman & Co Research

Valuation

Despite its strong absolute performance and consistent uplift to carry value on exit, ICGT trades at a discount to NAV. This is not uncommon in the PE fund-of-fund space, and ICGT's discount is broadly in line with that of its immediate peers, noting that the NAVs for some peers are updated monthly, while others are updated quarterly. Since *our initiation*, on 6 July 2020, ICGT's share price has increased by 67%, against its peers' average increase of 70%, bringing its discount closer in line with the average. As noted above, the discount to NAV has come down sharply from the peaks of the COVID-19 pandemic, but it is still above the levels seen before that crisis hit.

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



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 2 December 2021

Appendix 1: ICG managed funds

ICGT invests in the ICG managed funds listed below

ICGT investments with ICG funds				
Year-end Jan 21 (£000)	Original commitment	Remaining commitment	FV of investment	Strategy
ICG Europe Fund VII	35,439	15,807	25,210	
ICG Europe Fund VI	22,150	4,565	20,303	
ICG Europe Fund V	13,624	904	2,784	
ICG Europe Mid-Market Fund	17,720	16,169	1,251	
ICG Europe Fund 2006B	9,323	644	109	
ICG Recovery Fund 2008B	10,632	994	4,096	
ICG North American Private Debt Fund II	7,295	4,770	2,545	
ICG Strategic Equity Fund II	29,180	19,259	11,954	
ICG Strategic Secondaries Fund II	25,533	16,470	11,122	
ICG Augusta Partners Co-Investor	18,238	17,471	7,244	
ICG Cross Border	3,648	804	3,053	
ICG Velocity Partners Co-Investor	10,943	1,081	2,513	
ICG Asia Pacific III	10,943	2,840	11,320	
Total	214,668	101,778	103,504	

Source: ICGT Report and Accounts, Hardman & Co Research

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