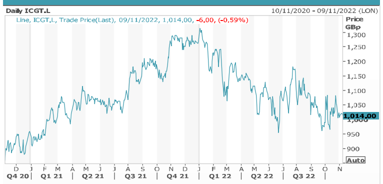
HARDMAN & CO.

Closed End Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	**1,020**
12m high (p)	1,314
12m low (p)	945
Shares (m)	68.47
Mkt cap (£m)	698
NAV p/sh (Jul'22, p)	1,852
Disc. to NAV	45%
Country/Ccy of listing	UK/GBP
Market	Premium equity closed-ended investment funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to an attractive portfolio of profitable, cash-generative private market investments, with the added benefit of daily liquidity. 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. Cttee. Chr.	Alastair Bruce
NEDs	David Warnock, Sandra Pajarola, Gerhard Fusenig
Inv. Mgrs.	Oliver Gardey, Colm Walsh
Contact	Christopher Hunt +44 (0)203 545 2000 www.icg-enterprise.co.uk

Key shareholders

None over 3%

Diary

Feb'22	3Q update to Oct'22

Analyst

Mark Thomas +44 (0)203 693 7075
mt@hardmanandco.com

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ICG ENTERPRISE TRUST PLC

1H'23 and beyond: safe harbour in the storm

ICGT *reported* another strong half-year, with an NAV per share total return of 10.9% and sterling portfolio returns of 12.4% (local currency 7.4%). Total proceeds and new investments were strong, at £107m and £144m, respectively. At this stage of the cycle, disciplined net investment is expected, capitalising on attractive opportunities, especially in secondaries. ICGT saw an average 25.2% exit uplift, despite the challenging market conditions. Investment remains focused on businesses with good risk-adjusted returns and defensive growth characteristics. The board is optimising shareholder returns with a progressive dividend policy and share buybacks.

- **Defensive growth, long-term-value**: ICGT's strategic approach has given investors market-beating returns and just two down quarters out of 26 since the manager was appointed. In both good and bad years, the model has consistently proved that it can deliver resilient returns, driven by underlying company EBITDA growth.
- **Underlying company metrics**: The top 30 companies showed strong LTM revenue and EBITDA growth of 27.5% and 26.3%, respectively. Average EV/EBITDA was 14.5x (31 Jan'22: 14.6x), with a PEG of just 0.55x. Net debt/EBITDA was 4.3x (31 Jan'22: 4.3x). Enhanced disclosure helpfully showed dispersion around these metrics.
- **Valuation:** ICGT's NAV valuations are conservative, demonstrated by continued realisations above reported book values. The ratings are undemanding. The 45% discount to NAV is anomalous, we believe, with defensive, market-beating returns, and is above the levels seen pre-COVID-19. The 2023E yield is 2.9%.
- **Risks:** Private equity (PE) is an above-average cost model, but post-expense returns have consistently beaten public markets. Actual experience has been of continued NAV outperformance in economic downturns, but sentiment may be adverse. ICGT's permanent capital structure is right for unquoted/illiquid assets.
- **Investment summary:** ICGT has consistently generated superior returns, by adding value in an attractive market, having a strategic focus on defensive growth and leveraging synergies from being part of ICG since 2016. Valuations appear conservative, and governance is strong. ICGT focuses on delivering resilient risk-adjusted returns, and balancing risk and reward. The risks are primarily sentiment-driven on costs and cyclicality, and on the underlying assets' liquidity. It seems anomalous to have a consistent record of outperformance and to trade at a 45% discount to NAV.

Financial summary and valuation

Year-end Jan (£000)	2019	2020	2021	2022	2023E	2024E
Total income	5,969	7,441	6,594	5,503	3,373	4,285
Realised gains	9,329	14,686	(17,088)	1,968	34,836	35,690
Unrealised gains	76,440	70,974	201,159	238,062	209,017	214,140
Investment mgr. fees	(7,984)	(9,572)	(10,728)	(13,417)	(16,758)	(15,308)
Other expenses	(2,903)	(3,232)	(4,070)	(4,646)	(4,789)	(4,941)
Rtn. on ord. act. pre-tax	81,789	80,505	175,068	226,490	225,329	230,266
NAV per share (p)	1,057	1,152	1,384	1,690	1,989	2,292
NAV total return	12%	11%	22%	25%	21%	19%
S/P discount to NAV	22%	16%	31%	26%	49%	56%
Investments (£m)	670	778	908	1,124	1,428	1,687
Dividend per share (p)	22	23	24	27	30	33

Source: Hardman & Co Research

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1H'23 results summary

Five-year portfolio average annual 20.6% return on local currency basis

The portfolio return on a local currency basis over the last 12 months (LTM) was 21.9% (five-year average: 20.6%), with 7.4% generated in the last six months. High Conviction (HC) investments (52% of the portfolio) generated local currency returns of 9.2% in the six months, while third-party funds generated local currency returns of 5.7% over the period. The five-year NAV total return is now 16.9%.

Top 30 companies' earnings growth key driver to performance

The top 30 companies, which constitute 42% of the portfolio value, continued to deliver strong operational performance during the period. LTM reported average revenue growth was 27.5% (FY'22: 27%), demonstrating the resilience of the underlying investments. This revenue growth was supported by margin expansion, generating EBITDA growth of 26.3%, a key driver to the valuation growth.

Continuing to realise at significant uplifts to carrying value, despite market conditions

Total proceeds during the period were £107m (FY'22: £343m). £73m of proceeds came from 30 full exits at an average uplift to carrying value of 25% (close to the 10-year average, despite market conditions) and a 3.3x multiple to cost (well above the 10-year average). The realisation uplift and returns profile indicate both the inherent caution in the portfolio valuations and the company's ability to identify attractive investments to generate strong returns. Partial exits generated proceeds of £34m during the period.

Investing in today, committing to tomorrow

£143.7m of total new investments were made, of which £86.4m (60%) was into HC investments – £7.1m to ICG managed funds, £49.2m to secondary investments and £30.1m to direct investments. Additionally, there was a £57.3m investment (40% of total investments) into drawdowns by third-party funds. In terms of new commitments, there were £164m of new commitments to funds, of which £66m were to ICG-managed funds and £98m to third-party funds. Commitments made today are invested over the next three to five years, and are important to remaining diversified by vintage/asset maturity.

Robust balance sheet

ICGT's objective is to be fully invested through the cycle, minimising cash drag on portfolio returns, while retaining sufficient liquidity to take advantage of investment opportunities as they arise. At the end of July 2022, ICGT had £174m of available liquidity (£13m of cash and a £161m undrawn revolving credit facility). It had drawn debt of £39m, having increased the size of its revolving credit facility from €200m to €240m. Undrawn commitments at the end of July were £528m, £95m of which are in funds outside their investment period. Over-commitment at the end of July 2022 was thus 28% of NAV, up from 18% at the end of January 2022. In previous notes, we have explained why nominal commitments, some of which may not be drawn at all and others that may not be expected to be drawn for several years, may be expected to exceed current cash and financing lines, and why a degree of over-commitment is thus sensible balance sheet management.

Optimising shareholder returns via progressive dividend and new buyback policies

In line with its progressive dividend policy, ICGT's interim dividend per share was 14p (+17% YoY). In addition, the board has resolved to commence a long-term programme of share buybacks. This programme will sit alongside ICGT's existing progressive dividend policy and may be executed at any discount to NAV. The board will review the buyback size and mandate quarterly.

Defensive growth delivers consistent returns

The outlook in the current uncertain macro times formed much of the questioning on the presentation call. "Defensive growth" is core to ICGT, and has delivered the consistency of returns evident in ICGT's performance over the long term. When the FTSE All-Share saw falling EBITDA (e.g. in FY'16 and FY'21), ICGT's top 30 companies still delivered double-digit EBITDA growth. In answering questions, the company also highlighted i) that ICGT invests in mid-market, defensive sectors and that market statistics showing transactions slowing were biased by large technology deals, ii) that realisations were continuing and broadly in line with historical rates (as seen in 1H), iii) that the lower-than-average leverage reflected a conservative choice of managers who did not rely on financial engineering, with strong cash generation being seen from underlying companies (profitability and cash generation are attractive "defensive growth" characteristics for ICGT), and iv) the opportunities in the secondary market, where the imbalance of buyers and sellers meant that high-quality portfolios could be bought at 10%-15% discounts to par and where ICGT could conduct full due diligence on the underlying investments to ensure they met the defensive growth characteristics.

Theme 1: safe harbour in a storm

Defensive growth investing

ICGT's portfolio focus is on buyouts of businesses in mature markets that have defensive growth characteristics. It chooses direct investments and managers that also align to this strategy – and the maturity and profitability of these businesses is really central here (these are not venture capital or early-stage business investments). The sector exposure and the maturity of the businesses in which ICGT invests should position the company well relative to the market in delivering resilient returns.

Defensive growth has a "play book" of characteristics, which can be seen again and again across ICGT's investments…

…and which are fundamental to consistent returns

Looking at defensive growth characteristics in more detail, these often include:

- Mature businesses that are profitable and cash-generative (unlike early-stage venture capital investments).
- Dominant market positions.
- Providers of mission-critical services.
- The ability to pass on price increases.
- Avoiding early-stage venture capital where valuations may be based off future revenue projections.
- High margins.
- Scalable platforms.
- Sectors or sub-sectors where the income streams are non-cyclical.
- Growth levers, such as bolt-on M&A or operational improvements.
- Strong management, with proven track records.
- PE is a long-term investment. ICGT has, for some time, assumed that exit multiples would be lower than entry ones for its co-investments, thus building in a cushion in its deal assessments. Also, investments have had to justify themselves on earnings growth, not multiple expansion.
- With recent co-investments, ICGT has been leveraging Intermediate Capital expertise and building downside protection into the structure of its deals, taking a very cautionary approach to such investments.

NAV fallen in only two out of 26 quarters

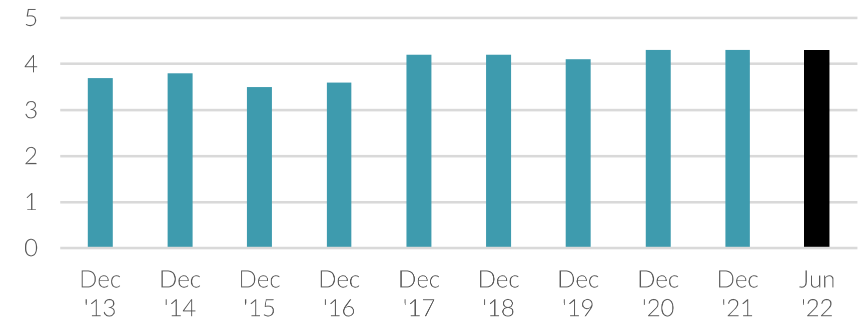
The consistency of ICGT's performance over many years is testament to these characteristics, and it has seen only two quarters in the last 26 when the NAV has fallen.

Gearing – net debt/EBITDA

Net debt/EBITDA stable over long term

The chart below highlights the stability of net debt/EBITDA in the underlying companies, which has been largely unchanged over the past five years. A small number of bolt-on deal deals (market opportunities post-pandemic) and re-financing ahead of expected rate increases have been offset by strong EBITDA growth, leaving the ratio unchanged on the year.

Net debt/EBITDA, Dec'13-Jun'22 (x)



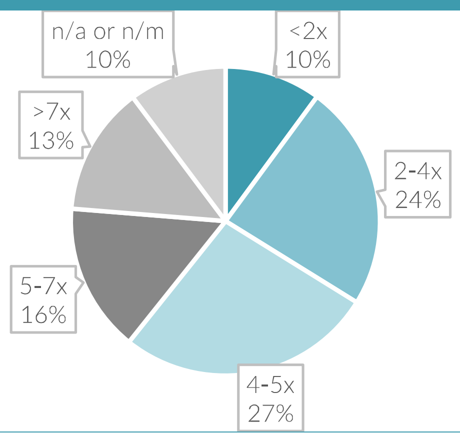
Source: ICGT Report and Accounts, Hardman & Co Research

Modest gearing needs to be seen in context of lower-risk operating model

It is also worth putting this gearing into context. It is not as high as the 6x gearing that some of the mega deals in PE attract. ICGT's companies are established businesses with scale; they have pricing power and recurring, resilient revenue streams. ICGT's General Partners (GPs) bring treasury expertise to their investee companies, so that debt is fixed and of extended duration, and the entire capital markets are accessed – not just limited bank finance. Where Intermediate Capital is the manager of the fund, the expertise is particularly evident. Additionally, cov-lite documentation is prevalent in PE-backed companies, reducing the probability of default. We believe that trading partners, knowing that there is a well-financed PE backer, will also offer more favourable terms to investee companies – which makes a big difference to ongoing operations.

The chart below shows the distribution of debt, with just over a third of the portfolio, by value, having net debt/EBITDA below 4x, and with less than 30% in excess of 5x. Management has emphasised the strong cash generation of its investee companies and its confidence in their continued ability to service debt at these levels.

Distribution of net debt/EBITDA, Dec'13-Jun'22 (x



Source: ICGT Report and Accounts, Hardman & Co Research

Why PE outperforms in downturns

We have highlighted, in previous notes on ICGT (see Outperformance through every stage of cycle – 6 July 2020, or Defensive growth: explaining downside resilience – 8 September 2020), the NAV outperformance through downturns. Part of the reason for this is that PE-backed companies structurally outperform. Also, ICGT has taken incremental risk reduction measures. To summarise the former:

Access to committed capital and creditors' knowledge of this support important factors

- PE-backed companies have greater, and faster, access to committed capital than non-PE-backed ones. Market estimates are that "dry powder" (committed funding to PE that has not yet been drawn down) stood at $1.32tr as at September 2021. In our view, knowledge of this support means that suppliers and other finance providers feel they are less at risk. Confidence can be critical in uncertain times.

Strategic optionality – both acquisitive and organic

- Access to capital gives more strategic optionality for PE-backed companies. This may fund acquisitions that, in a downturn, are likely to be less expensive and also more readily available. Importantly, the optionality from committed capital also allows investment for greater growth, which can be even more important in challenging conditions.

PE backers provide strategic, operational and financial expertise to help investee companies

- PE managers can assist their investee companies with expertise that may not be available to the standalone entity, including i) operations, ii) finance, iii) strategy and iv) market opportunities, including acquisitions and mergers. This was very evident during COVID-19; for example, the April 2020 McKinsey & Company's study, Lessons for private equity from the last downturn, highlighted the scale of outperformance by those firms with "value-creation" teams against those without.

Manager alignment

- As PE funds have a life of at least 10 years, if managers want to earn performance fees or launch new funds, they have to manage these through the cycle. Quoting again from the above April 2020 McKinsey & Company study, those managers with value-creation teams outperformed and raised more capital. It is not just the PE managers whose financial interests are aligned with investors; the investee company management teams are also strongly financially incentivised to deliver strong returns for investors in a way that is not possible in the public markets. This is both motivational and attracts the best talent.

Long life span means not necessary to sell into distressed markets, and can invest for long term

- The lifespan also means that PE managers can generally have some flexibility on when they sell assets. Public market prices reflect the price an investor is prepared to sell at today, and it is not in the business plan for assets held in funds with three/four/seven/eight years left to be sold. Managers can time exits based on the specific opportunities for a given asset/sector, and they do not have to sell into distressed markets.

Defensive positioning by sectors

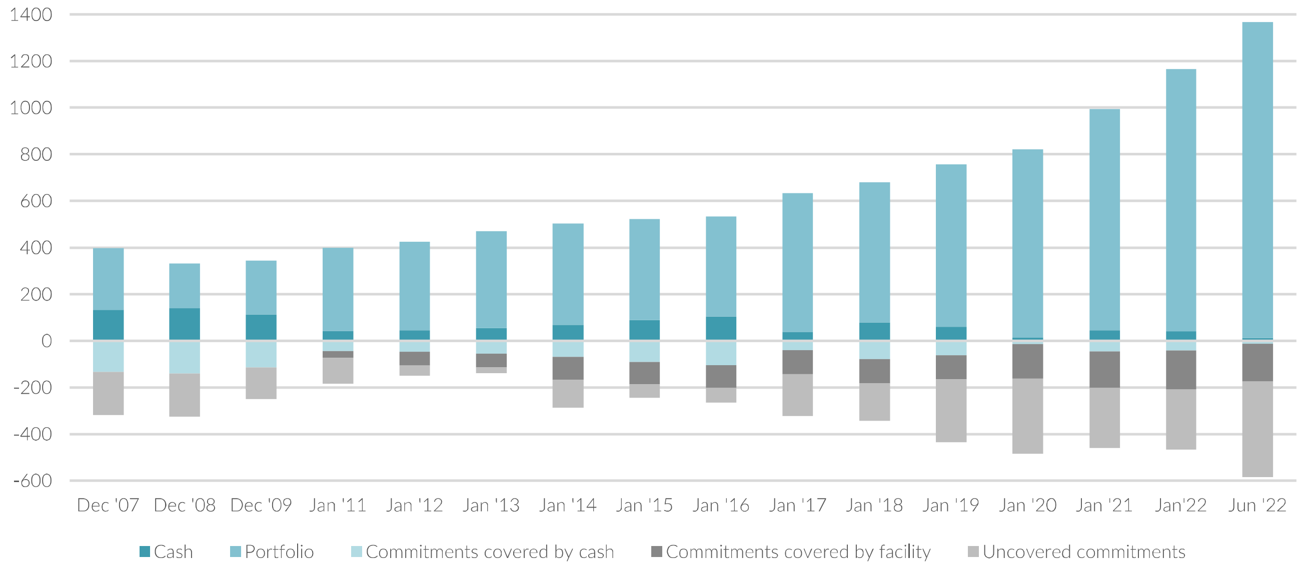
- In recent times, every quoted PE company has been emphasising the defensiveness of its portfolio and the importance of sectors such as tech-enablement/critical business services and healthcare.

Multiple academic research supports resilience of PE

A number of academic research articles explore why PE is more resilient, including a piece called Private equity firms show resilience in a downturn (Stanford scholar Shai Bernstein, September 2017), a 2011 piece called Private Equity Portfolio Company Performance Through The Recession, from academics from the universities of Leeds and Nottingham, and a September 2020 Invest Europe report, entitled Private Equity at Work: Employment & job creation across Europe, which showed the positive relationship between PE and employment.

Balance sheet evolution

Balance sheet evolution since December 2007 (£m)



Note: Includes co-investment incentive scheme accrual commitments; Source: ICGT Report and Accounts, Hardman & Co Research

Over-commitment as percentage of NAV 28%

Total liquidity rose to £174m in 1H'23, of which £13m was cash and £161m was undrawn facilities (January 2022 cash: £41m, undrawn facilities: £167m). Total undrawn commitments were £528m (January 2022: £419m), of which £95m (January 2022: £96m) were to funds outside their investment periods. The total over-commitments (including those unlikely to be drawn) were £354m (January 2022: £211m), which is 28% of NAV (January 2022: 18%). There is a further £57m of co-investment incentive scheme accrual commitments (FY'22: £49m), which, it may be argued, are commitments due because of the performance of the portfolio, and these are consistently included in the chart above.

In our view, this long-term balance sheet evolution shows a conservative approach, and the degree of over-commitment is prudent in relation to likely cashflows. ICGT's increased investments in secondaries will also accelerate the cashflow profile – since secondary investments generally reflect more mature assets, the distributions are generally received faster than from primary investments.

Theme 2: confidence in valuation

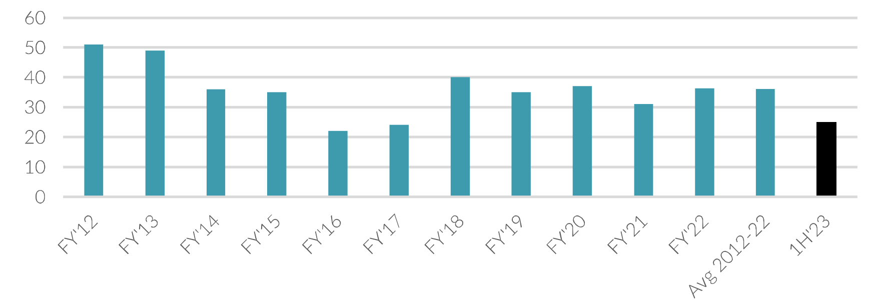
Uplift on exit

Uplift on exit (25%) close to level of previous years, indicating both conservative accounting and embedded value in portfolio

1H'23 had no exits in top 30

A key consideration in whether a company has been appropriately moderate/has a cautious approach to valuing portfolio assets is to consider the uplift to carrying value when a position is sold. The chart below shows ICGT's realisation history. 1H'23 was close to long-run averages. These uplifts are important for two reasons: i) they show that the current reported investment values have been conservatively adopted (the proof of the pudding is that buyers have offered, and indeed paid, a premium to the reported value) and ii) they reflect an embedded value within the portfolio. This value, the premium that other investors will pay over the level recognised by ICGT, has been realised, even in challenging current market conditions, across a decent number of transactions. The 1H'23 average uplift value reflects the average across 30 full exits.

Uplift in value on realisation against latest accounting book value, FY'12-1H'23 (%)



Source: ICGT Report and Accounts, Hardman & Co Research

Valuation – EV/EBITDA and low PEG

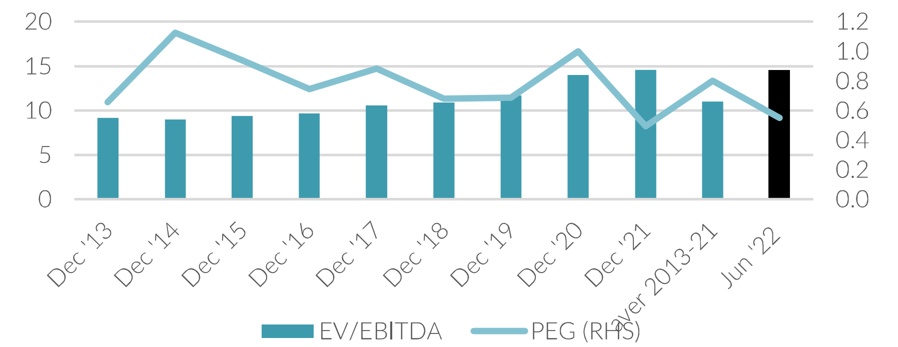
EV/EBITDA 14.5x vs. 14.6x in January 2022

Just 7.2% by value of top 30 companies are on a multiple of >20x

PEG ratio well below historical average levels, at just 0.55x

As can be seen in the chart below, the average EV/EBITDA multiple is broadly stable, at 14.5x. This is despite i) being in defensive growth sectors, which have performed well through COVID-19, and ii) the tech-enabled nature of most of ICGT's portfolio companies, again where market multiples have risen. The 14.5x excludes Chewy and MoMo Online Mobile Services, as these businesses are valued off other metrics. It is also worth noting that the PEG ratio remains extremely low, at 0.55x, well below listed market ratings for high-growth sectors and the average since 2013 (0.8x).

EV/EBITDA and PEG, Dec'13-Jun'22 (x



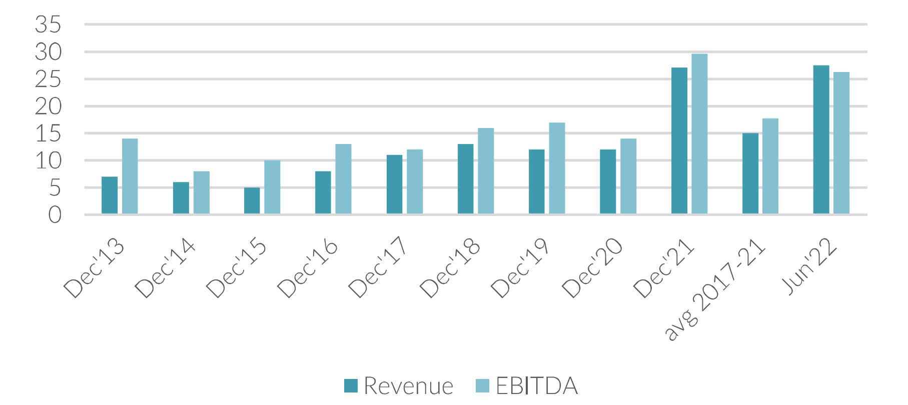
Source: ICGT results presentations, Hardman & Co Research

Revenue and EBITDA growth[1]

Average revenue and EBITDA growth of top 30 companies well ahead of five-year average growth

The chart below highlights how ICGT's top 30 companies have continued to grow. Indeed, in 1H'23, the average revenue growth rate was nearly twice, and EBITDA growth 1.5x, the previous five-year average, due partially to the pandemic recovery, but also due to the value added by the PE managers operationally and strategically. Just 7.5% of the top 30 companies by value saw revenue declines (and 18.1% EBITDA declines) on a LTM basis.

Revenue and EBITDA growth, Dec'14-Jun'22 (%)



Source: ICGT results presentations, Hardman & Co Research

No incentive for GPs to inflate valuations

No incentive to inflate interim valuations, either for performance fees or to launch new funds

In fact, positive disincentive to do so

There is no incentive for PE managers to over-inflate their portfolio company valuations. Performance fees make up the biggest element of remuneration by far, and this is paid on the cash generated upon realisation. If interim valuations were consistently over-inflated, the manager's reputation would be damaged by having to write down deals upon realisation. Limited Partners (LPs) pay close attention to uplifts upon exit and a manager's ability to "surprise on the upside". If a manager is trying to launch a new fund and inflates the value of its existing unrealised portfolio to impress potential investors with a better unrealised track record, it could potentially get one new fund away. However, the manager's credibility would be affected if, subsequently, the old fund or funds had to be written down.

Independent basis of valuations

Independent checks include at GP level and ICGT level…

…and ultimately prices paid by independent buyers on exit

The reported investment values have at least three layers of independence checks. Many of the investments do not have immediate market peers, and, like many others in the PE space, the ratings are often driven by entry and peer deal valuations, rather than market multiples. The approach taken by the GPs is subject to the GPs' own internal and external audits and verification processes. This independence is then overlaid by the usual independent checks of a listed vehicle, including the audit process with external auditors and the independent Board and Valuation Committee. For us, the ultimate independent check is what a third party will pay for an asset – so the uplift on exit is the ultimate independent check.

[1] Weighted averages based on contribution to portfolio value at 31 July 2022. EBITDA growth rate excludes companies for which prior-year EBITDA was negative.

Results in more detail

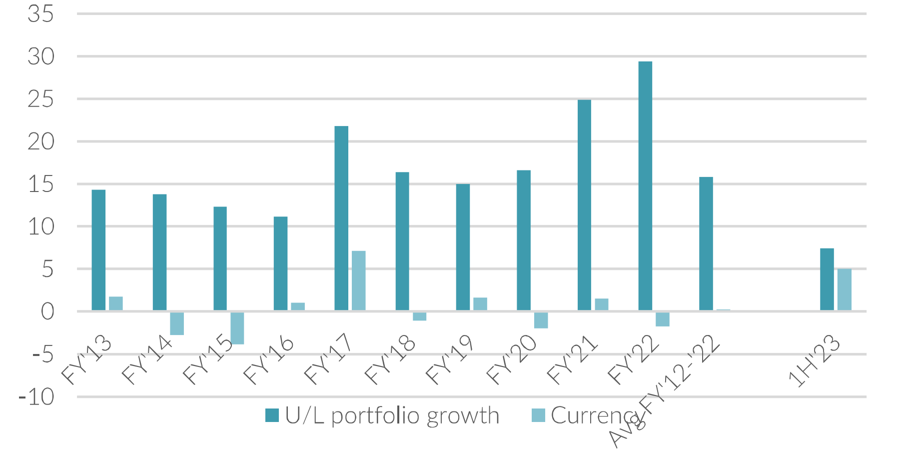
Growth in portfolio

1H'23: 7.4% underlying portfolio growth

Been above 15% every year for past six years

The chart below shows the underlying constant-currency portfolio growth since FY'13. What is remarkable is the consistency of 15%+ returns over the past six years (ICG appointed manager 1 February 2016). Should 1H'23 performance be repeated in the second half, it would be the seventh consecutive year of growth.

Underlying constant-currency portfolio growth, FY'10-1H'23 (%)



Source: ICGT Report and Accounts, Hardman & Co Research

Drag effect of Chewy much reduced

Management comments that, despite fall since peak share price, "ICG Enterprise Trust's investment in PetSmart (which includes Chewy) has delivered a strong return on investment for our shareholders"

PetSmart has been an investment since 2015, but, through FY'21, its relative value in the portfolio rose sharply, following the IPO of Chewy (part of the PetSmart business). Chewy's share price doubled between the end of October 2020 and the end of January 2021, to $101.8, when the combined holding was 9.6% of NAV. However, in FY'22, the share price more than halved, and, by the end of January 2022, the share price was down to $47.6, representing a ca.4% drag on NAV. In 1H'23, the share price dipped, and then recovered back to $38.8, meaning that its drag effect was much reduced over the period. It is currently $34.9.

Chewy share price, Jan'20 to 8 Nov'22 ($)

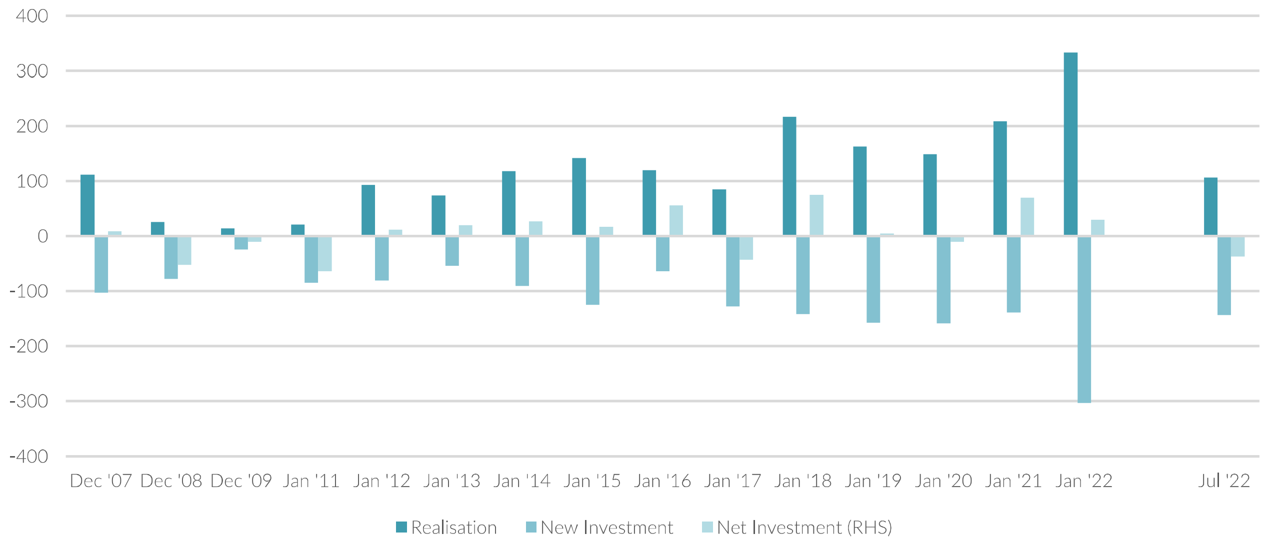
Source: Refinitiv, Hardman & Co Research

Realisation and investment activity

ICGT realisations and investments running above run rate for FY'20 and FY'19

The chart below shows realisations and drawdowns since 2007. Over recent years, both have been growing with the business. 1H'23 realisations were £107m, which, while down on the record levels of FY'22, would still be a "good" result. It would, for example, be above the levels of FY'20 or FY'19. Given the opportunities at this stage of the cycle, we would expect to see a net investment.

History of realisations and drawdowns since 2007 (£m)



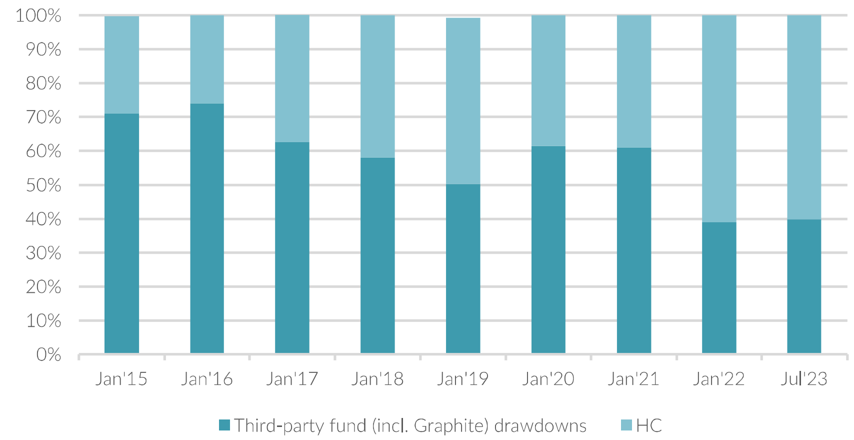
Source: ICGT Report and Accounts, Hardman & Co Research

New investments

HC 60% of new investments well above long-run average

The chart below examines how new investments have been allocated by type. While fund drawdowns are at the discretion of the fund manager, ICGT's HC investments include direct investments – both co-investments and secondary investments. ICGT has discretion over whether to participate in these investments, and so can dynamically increase or decrease this portion, depending on available liquidity and anticipated cashflows.

New investments by type, Jan'15-Jul'23 (%)



Source: ICGT results presentations and announcements, Hardman & Co Research

Strategically increasing exposure to secondary fund market through FY'22/ 1H'23, as pricing of quality funds made it a buyer's market

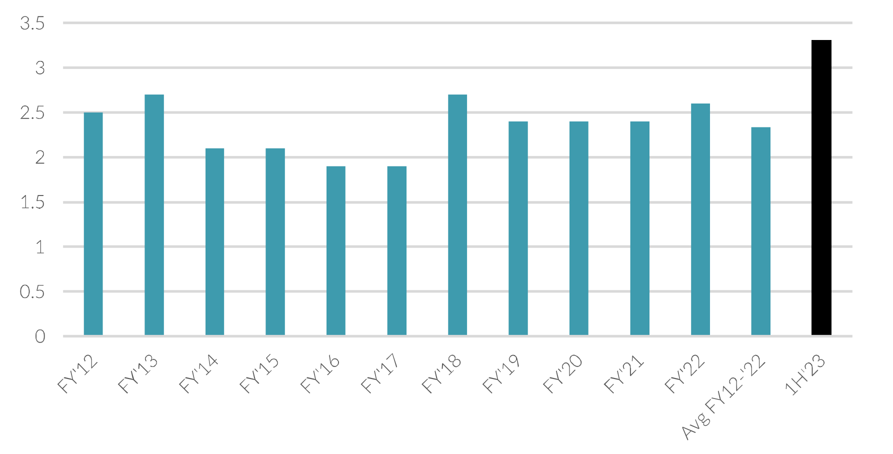
We highlighted, in our note Spotlight on secondaries, published on 2 March 2022, the strategic allocation to secondary investments. The reasons ICGT is increasing the assets' weighting include the following: i) these assets have known underlying investments; ii) they return cash quickly; iii) funds are much later in (or sometimes outside of) the investment period, and the businesses in which they are invested are that much more mature; and iv) attractive entry pricing is driven by inherent supply/demand dynamics – all fitting ICGT's portfolio management well. The raised allocation reflects new, highly experienced and well-connected hires within the ICG team, who have significant experience in secondary market investments, as well as attractive investment opportunities, driven by current supply/demand dynamics. ICGT invested £49.2m in secondary acquisitions during 1H FY'23 – over a third of its total investments of £144m in the period. Management highlighted that, with the fall in public markets, for some institutions, their weighting to PE had risen materially, and would rise further with the drawdown on their existing commitments to PE funds. This allocation shift led to an increase in sellers in the secondary market and the price of high-quality funds moving from around par to a 10%-20% discount to par, making it a very attractive buyer's market.

Realisation multiples

Realisation to cost 3.3x, against 10-year average of 2.3x

The chart below shows the realisation value to cost multiples since FY'12. 1H'23 was well above the long-run average, although there was no single underlying driver to the higher exit multiple during the period. A couple of the larger original investments were executed at particularly attractive multiples, but, even on a simple average basis, the average multiple would have been above the historical reported number.

Realisation value to cost multiple (pre-incentives), FY'12 to date (x)



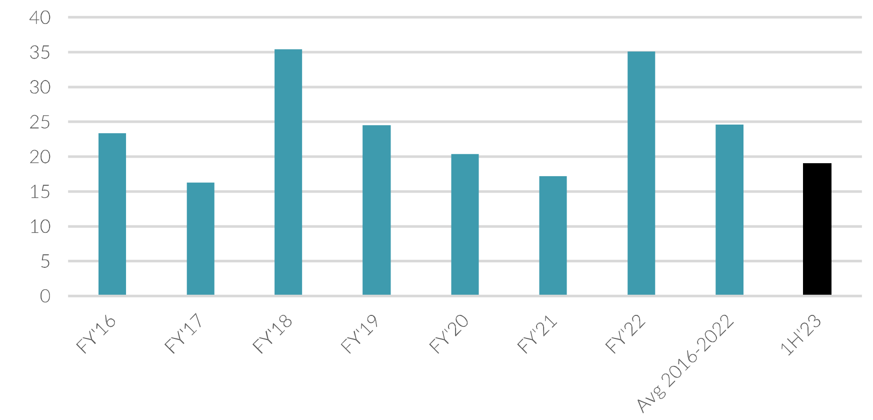
Source: ICGT Report and Accounts, Hardman & Co Research

Conversion to cash

Looking forward, increasing focus on secondary assets may see acceleration in realisation of cash

The chart below shows the continued robust conversion of the portfolio into cash, with an average (from FY'16-FY'21) cash conversion rate of 25%. While not as strong as the record FY'22, looking forward, the increasing focus on secondary assets may be expected to see an acceleration in the realisation of cash, resulting in an increase in the cash conversion ratio relative to historical average levels.

Cash conversion (i.e. proceeds excluding secondary sales) as % of opening portfolio, FY'16-1H'23



Source: ICGT results presentations, Hardman & Co Research

Activity since period-end

Realisations have continued broadly in line with historical levels

Management notes that realisations have continued broadly in line with historical levels. The mid-market, defensive growth sectors in which ICGT is focused have been the ones that other PE managers have said remain of interest – so ICGT's messaging is consistent with that of other market participants. Dry powder in the market remains significant, and, while the headline numbers show activity slowing, we concur with management's view that there is a bias to larger deals that are more affected by leverage finance, and this has less of an impact on ICGT. We also believe that its proven record of identifying resilient companies and managers means that its underlying companies are likely to operationally outperform, which will prove attractive to potential bidders.

Portfolio

52% portfolio now HC

The HC portfolio now accounts for 52% of the book. The superior returns from the HC portfolio show the added value – the alpha return – from the ICGT investment process. Third-party funds account for the residual 48% of the portfolio. As we detailed in our note, *ICGT's steps to value-adding portfolio construction,* published on 22 February 2021, third-party manager relationships are a key source of dealflow for HC investments.

Top 30 accounting for 42% of portfolio, giving balance between diversity and concentration risks/benefits

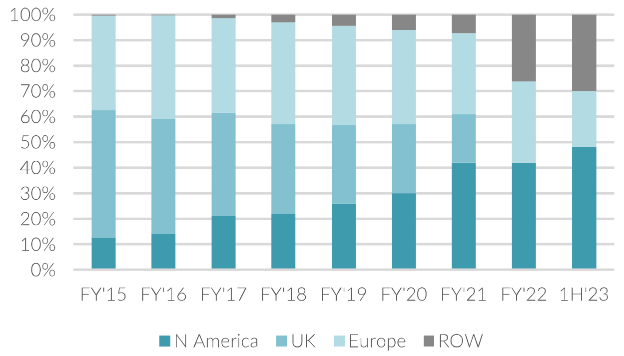
The top 30 companies account for 42% of the portfolio value (top 50: 49%). The portfolio is weighted towards the mid-market and large deals, which we view as more defensive than smaller deal sizes, as they benefit from stronger management teams and, often, market-leading positions.

8.8% in listed companies in 1H'23, down from 20.4% in FY'21

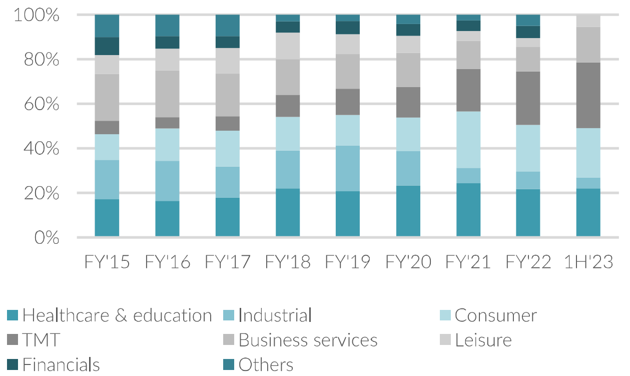
At the end of 1H'23, ICGT had 8.8% (FY'22: 10%) of the portfolio in listed companies. This was down from 20.4% at the end of 2021. ICGT does not invest in listed companies, but it gains listed investment exposure when IPOs are used to exit an investment. 3.4% of the portfolio was in Chewy/PetSmart.

As the left-hand chart below shows, North America now represents 48% of the portfolio (in line with the strategic target of 40%-50%). The right-hand chart shows that nearly half of the portfolio is in healthcare, education and TMT – the defensive growth sectors. Within the broad sectors below, sub-sector allocation is typically to those areas that show structural growth with recurring revenue streams, such as subscription-based business software within TMT.

Geographical distribution of portfolio from FY'15 (%)



Sectoral distribution of portfolio from FY'15 (%)



Source: ICGT (note UK included in ROW since FY'21), Hardman and Co Research

Financials

We have increased our NAV forecasts to reflect the strong performance in 1H'23.

Income statement (£000)

Year-end Jan	2022			2023E			2024E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends	-		-	1,124		1,124	1,428		1,428
Overseas interest & dividends	5,501		5,501	2,247		2,247	2,855		2,855
Deposit interest & other	2		2	2		2	2		2
Realised gains on investments		1,968	1,968		34,836	34,836		35,690	35,690
Unrealised gains on investments		238,062	238,062		209,017	209,017		214,140	214,140
FX gains & losses	0	(980)	(980)	0	0	0	0	0	0
Investment manager fees	(1,342)	(12,075)	(13,417)	(1,523)	(15,235)	(16,758)	(3,827)	(11,481)	(15,308)
Other expenses	(2,383)	(2,263)	(4,646)	(2,526)	(2,263)	(4,789)	(2,678)	(2,263)	(4,941)
Return before finance costs & taxation	**1,778**	**224,712**	**226,490**	**(676)**	**226,355**	**225,679**	**(2,220)**	**236,086**	**233,866**
Interest payable & similar expenses	0	0	0	(350)	0	(350)	(3,600)	0	(3,600)
Return on ord. activities before taxation	1,778	224,712	226,490	(1,026)	226,355	225,329	(5,820)	236,086	230,266
Taxation	-	-	-	174	(174)	-	989	(989)	-
Return on ord. activities after taxation	1,778	224,712	226,490	(852)	226,181	225,329	(4,830)	235,097	230,266

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Non-current assets									
Unquoted investments	356,939	491,099	478,362	519,806	571,143	604,306	202,009	317,601	390,078
Quoted investments	0	364	1,733	1,655	1,231	35,702	0	0	0
Subsidiary investments	57,168	80,718	96,392	148,611	206,042	267,554	921,738	1,109,999	1,296,499
Total non-current assets	414,107	572,181	576,487	670,072	778,416	907,562	1,123,747	1,427,600	1,686,576
Current assets									
Cash & cash equiv.	103,831	38,522	78,389	60,626	14,470	45,143	41,328	12,149	26
Receivables	4,038	2,384	10,410	548	1,142	162	2,205	1,002	3,054
Total assets	**521,976**	**613,087**	**665,286**	**731,246**	**794,028**	**952,867**	**1,167,280**	**1,440,751**	**1,689,656**
Creditors	634	354	963	386	483	851	9,303	8,000	9,250
Gross debt								70,000	110,000
Net assets	**521,342**	**612,733**	**664,323**	**730,860**	**793,545**	**952,016**	**1,157,977**	**1,362,751**	**1,570,406**
NAV per share (p)	**730.93**	**871.05**	**959.14**	**1,056.51**	**1,152.12**	**1,384.3**	**1,690.1**	**1,988.9**	**2,292.0**

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

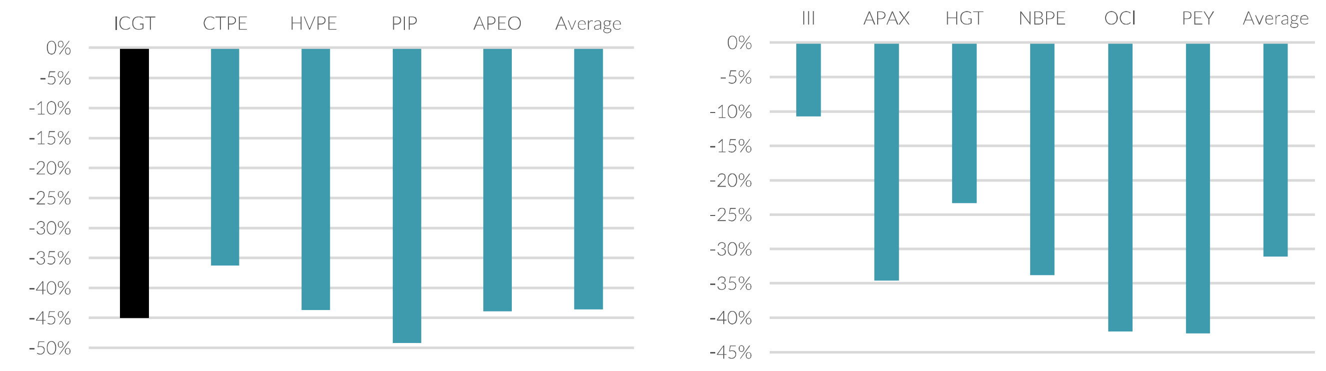
Year-end Jan	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Sale of portfolio invests.	89,941	50,338	160,712	135,461	107,179	147,545	100,982	50,000	70,000
Purch. of portfolio invests.	(56,213)	(102,621)	(99,601)	(101,790)	(95,417)	(86,134)	(75,125)	(60,000)	(60,000)
Net cashflows to subs. invests.			(12,824)	(32,427)	(34,446)	(6,486)	(2,524)	(50,000)	(20,000)
Interest income	8,951	7,263	15,967	3,994	5,832	1,231	3,647	3,647	3,647
Dividend income	2,882	2,629	6,230	1,883	1,290	5,445	1,854	(276)	636
Other income	384	259	129	216	381	71	2	2	2
Invest. mgr. charges paid	(5,840)	(6,143)	(7,090)	(7,956)	(9,499)	(10,334)	(6,207)	(16,758)	(15,308)
Other expenses	(1,269)	(1,380)	(1,456)	(1,749)	(1,227)	(1,419)	(1,570)	(1,570)	(1,570)
Net cash inflow/(outflow) from op. activities	38,836	(49,655)	62,067	(2,368)	(25,907)	49,919	21,059	(74,955)	(22,593)
Cashflows from fin. activities									
Bank facility fee	(1,963)	(1,089)	(1,320)	(1,081)	(2,576)	(1,410)	(3,318)	(3,318)	(3,318)
Interest paid					(61)	(440)	(50)	(350)	(3,600)
Proceeds from borrowing						-	-	70,000	40,000
Purchase of shares into treas.	(9,110)	(6,201)	(7,810)	(709)	(2,628)	(775)	(2,679)	-	-
Dividends	(14,816)	(11,357)	(13,896)	(14,543)	(15,192)	(15,822)	(17,849)	(20,555)	(22,611)
Net cash infl. from fin. activs.	(25,889)	(18,647)	(23,026)	(16,333)	(20,457)	(18,447)	(23,896)	45,777	10,471
Net inc. in cash & cash equiv.	12,947	(68,302)	39,041	(18,701)	(46,364)	31,472	(2,837)	(29,178)	(12,122)
Opening cash & cash equiv.	90,137	103,831	38,522	78,389	60,626	14,470	45,143	41,328	12,149
FX effects	747	2,993	826	938	208	(799)	(978)	-	-
Closing cash & cash equiv.	103,831	38,522	78,389	60,626	14,470	45,142	41,328	12,149	26

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, for others, the update is quarterly.

Current share price discount to NAV for immediate peers (LHS) & wider peers (RHS)



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 8 November 2022

Technology writedown concerns appear misplaced

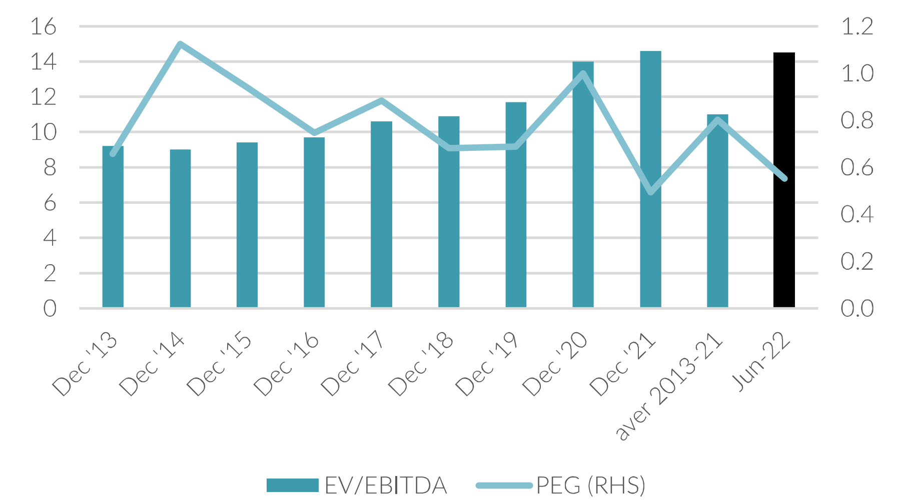
ICGT did not benefit from valuation uplifts, its business mix, other PE trends in this space or underlying company EBITDA growth

PEG ratio for underlying companies at lowest level in 10 years

And DEFENSIVE GROWTH

We believe that the recent widening of PE sector discounts may, in part, reflect concerns that the early-stage/VC businesses of PE companies will need to be written down to reflect falling listed market comparables. This is somewhat unfair, as it could be argued that most listed PE vehicles were never given the same credit for valuing their technology businesses on the way up (not that this ever formed part of ICGT's portfolio!). We note that HGT, the exclusively technology listed PE vehicle, reported positive NAV growth in 1H'22. We highlight, again for emphasis, and repeating the earlier chart, that the PEG ratio for the valuation applied to ICGT's underlying companies was at its lowest level in 10 years in January 2022 and July 2022. We also note the resilience of the defensive growth strategy.

EV/EBITDA and PEG, Dec'13-Jun'22 (x)



Source: ICGT results presentations, Hardman & Co Research

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research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

+44 (0)203 693 7075

www.hardmanandco.com