Private equity trusts are not the bargains they seem – except for this one

Questor
Trust Bargains

RICHARD EVANS

A wide average discount of 33pc is not what it appears but ICG Enterprise does look oversold

WHERE are opportunities to be found among investment trusts? Certainly in hindsight there were plenty when virus panic was at its peak but a glance at trusts' average discount now suggests that, in aggregate at least, the moment has passed.

The average discount ballooned to about 20pc when pessimism was at its peak but has now shrunk to about 8pc. Although the figure was just 1pc at the beginning of the year, 8pc is not far from long-term averages.

Are there then any investment trust sectors that have not shared in the wider recovery? At first sight the private equity arena, into which this column has stepped several times, has the widest average discount, about 33pc, and has experienced the second-largest widening, after property, relative to its 12-month average, according to Winterflood, the broker. However, discounts in private equity are calculated on the basis of net asset value figures that are not, as with trusts that invest in quoted assets, updated every day. In fact private equity trusts most recently updated their NAV figures at the end of the last year.

> ICG Enterprise
> **Buy**
> Experienced managers whose approach is relatively low risk

"We can expect the figures to be marked down when they are next updated for valuations at the end of March," said Simon Elliott of Winterflood.

"The private equity trusts will look at their underlying holdings, which are of course unlisted businesses, and try to assess the likely scale of the damage from the Covid epidemic. NAVs will be adjusted accordingly."

Questor's view is that, taken as a whole, Britain's private equity investment trusts have broadly the same exposure to the economy, and can therefore expect the same kind of damage to their profits, as the quoted sector. A corresponding reduction in NAVs, and the consequent shrinking in their discounts, would make the trusts look much less of a bargain.

The other evidence that private equity is not heavily undervalued is that this year's average fall in the trusts' share prices (on a "total return" basis), 24pc, is just 3 percentage points greater than the decline in the FTSE All-Share index over the same period.

Perhaps there are some bargains to be found in individual private equity trusts then?

Let's look for any among those we have tipped in the past: Hg Capital, JPEL, Standard Life Private Equity, Oakley Capital Investments, Dunedin Enterprise, HarbourVest, Pantheon International and ICG Enterprise.

Hg and JPEL have lost just 7pc this year, so they cannot be called bargains. The Standard Life trust has given up 18.3pc and Oakley 19.4pc. Neither can they. The falls in the share prices of Dunedin Enterprise, 22.3pc, HarbourVest, 23.8pc, and Pantheon, 24.3pc, are within a whisker of the sector average.

ICG is the one that stands out: its shares are 31.8pc lower than at the start of the year. The only private equity trusts to have fallen by more are what we might call "special situations". Better Capital 2009 and 2012 (34pc and 63.3pc lower respectively) are in the final stages of a managed wind-down, while Schroder UK Public Private (37.4pc) is the unloved former Woodford Patient Capital and Electra Private Equity (63.6pc) is being wound up.

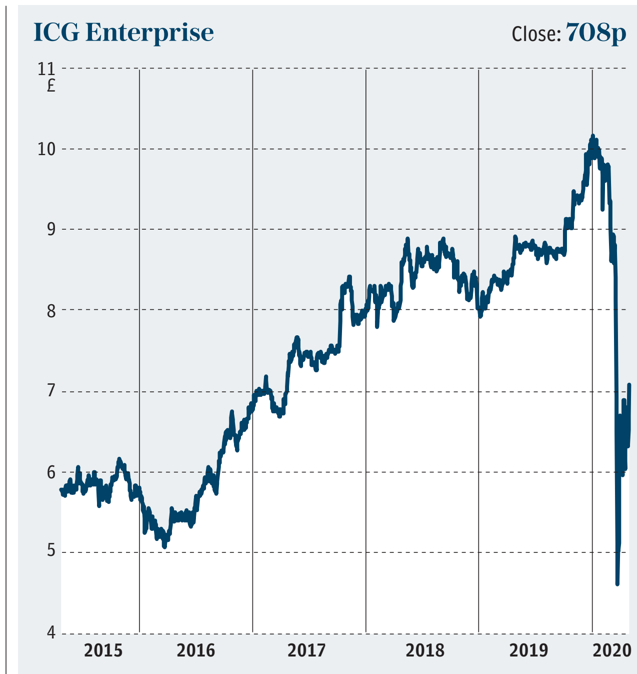
ICG Enterprise's heavy fall seems undeserved. The management company, also called ICG, is one of the most experienced in the field and its approach of investing with a mixture of debt, shareholdings and types of funding that fall in between (ICG stands for Intermediate Capital Group) is less risky than simply owning shares in all its holdings.

"This offers greater protection than investing just via equity," Mr Elliott said. "The trust also has a bias towards defensive growth companies and has enough cash to make any follow-up investments needed by the companies it holds. This prevents dilution of its stakes.

"The share price reaction feels overdone, it feels like the market is being far too pessimistic – why is ICG different from HarbourVest or Pantheon?"

This column believes that all the private equity trusts we have tipped in the past are worth holding. But anyone who wants to put new money into the sector should plump for ICG, although patience may be required.

Questor says: buy
Ticker: ICGT
Share price at close: 708p



Key numbers

- **Market value: £487m**
- **Year of listing: 1981**
- **Discount: 38.5pc**
- **Ave discount over past year: n/a**
- **Yield (Jan 2020): 3.2pc**
- **Most recent year's dividend: 23p**
- **Gearing: nil**
- **Annual charge (Jan 2019): 1.34pc**