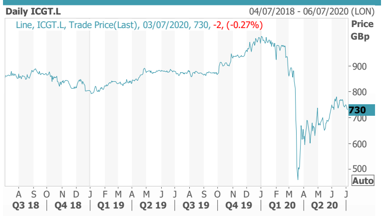
6 July 2020

HARDMAN & CO.

Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	**750**
12m High (p)	1,015.0
12m Low (p)	460.0
Shares (m)	68.88
Mkt Cap (£m)	516
NAV p/sh (p) (Jan)	1,114
Disc. to NAV	33%
Market	Premium equity closed-ended investment fund:

Description

ICG Enterprise Trust (ICGT) is a listed private equity 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 private equity 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
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Key shareholders

None over 3%

Diary

Oct	Interim results

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ICG ENTERPRISE TRUST PLC

Outperformance through every stage of cycle

ICGT, the 39-year listed private equity (PE) investor, has delivered a total NAV return of 178% over 10 years (comparable FTSE All Share return 61%). Since Intermediate Capital became the manager in 2016, ICGT has earned mid-teen p.a. underlying returns every year. This has been achieved by leveraging the attractive PE market with incremental manager synergies. It has a concentrated portfolio of "high-conviction" investments (19% p.a. average returns over five years, 42% of portfolio, defensive growth focus) and a diversified third-party PE funds book. ICGT manages over-commitment tightly. The 33% discount to NAV is above peers.

- **Value-added:** ICGT invests in the attractive PE market, where operational improvements, well-funded strategic development, valuation opportunities and good corporate governance create superior returns. It adds value in its strategic focus, investment process, and fund manager relationships and selection.

- **Outperformance through COVID-19:** In January to April, the portfolio return was -3.8% (-7% local currency). The high-conviction portfolio fell less than 3% (local currency). The third-party funds fell 10%. ICGT's defensive growth investment strategy is very evident, as the falls were well below those of indices.

- **Valuation:** The valuations are conservative (uplifts on realisations averaging 33% to latest book value over medium term). The ratings are undemanding and the carry value against cost modest. The discount to NAV is 33% (ca.3x recent levels), and is anomalous with defensive long-term market-beating returns.

- **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 the ICG family. 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, as well as the underlying assets' liquidity. It seems anomalous that a business with a consistent record of outperformance is trading at a 33% 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	12,283
Realised gains	844	-31,257	9,329	14,686	15,568	15,869
Unrealised gains	104,350	91,381	76,440	70,974	0	95,213
Investment mgr. fees	-6,209	-7,165	-7,984	-9,572	-8,691	-9,431
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	16,116	110,505
NAV per share (p)	871	959	1,057	1,152	1,152	1,288
S/P discount to NAV	-16%	-28%	-41%	-54%	-54%	-72%
Investments (£m)	572	576	670	778	793	880
Dividend per share (p)	20	21	22	23	24	25

Source: Hardman & Co Research

Table of contents

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Executive summary

Strategic positioning: investments considered with "defensive growth" in mind. 1Q performance shows significantly lower-than-market risk through COVID-19 crisis.

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor, providing shareholders with liquid 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. As noted in its Report and Accounts, the investment decision-making focus is on "defensive growth"; this means that investments are considered that benefit from long-term structural trends, rather than relying on cyclical economic growth. This, and an analysis of performance through the last downturn, typically leads to a focus on larger, well-established businesses, rather than early-stage companies. When considering the defensiveness of the portfolio as a whole, we believe ICGT will be materially more resilient than the market – a view confirmed by ICGT's April quarterly update (and peer announcements), where its NAV fell 4%, well below the declines in the indices (e.g. FTSE All Share fell 19%). The third-party fund portfolio (local currency) fell around half this index, and the "defensive growth" stock selection in the "high-conviction" portfolio saw a fall of around a sixth.

Compared with peers, there are a range of issues, but we believe that, overall, ICGT appears to have been in line with peers to slightly more resilient through the COVID-19 crisis. We believe the lower proportion of growth and no venture portfolio construction is defensive, sectorally, and that the bias to larger companies is in line with peers, but, by vintage, ICGT is above-average risk, and its geographical focus (low US, high UK) gives it a different profile, including an above-average risk to a Brexit hard landing.

COVID-19: ICGT likely to outperform quoted markets, as underlying companies have greater financial and operational support

In terms of COVID-19 outperformance, we believe (and the academic research appears in line with our view) that PE providing more certain access to capital is a key factor, alongside the support PE can offer in terms of expertise, scale and operational improvements. There will be operational impacts on investee companies, but ICGT's focus on defensive growth for each of its investments also stands it in good stead.

Market-beating returns over short, medium and long term, through range of economic conditions

ICGT's key attraction is its delivery of NAV total return. Taking a 10-year view to 30 April 2020, the NAV total return has been 178%, nearly 3x the 61% reported by the FTSE All Share index. On a five-year view, its return is 77% (FTSE All Share 5%) and, on three years, 34% (index -8%). ICGT's NAV has outperformed not only in a crisis downturn but also through a range of economic conditions. Shareholders get a balance between immediate reward via a dividend (yield 3.1%) and long-term capital growth.

Not happened by chance. PE in attractive market, providing incremental support to companies, allowing them to grow over long term.

We believe PE adds value for shareholders in four key areas: i) strategic development – PE-backed businesses can adopt a long-term focus; ii) performance enhancement – operational improvements from adopting sector-wide best practice, the active management of capital structures/finances and the strengthening of management teams; iii) valuation opportunity – PE can buy low and sell high; and iv) corporate governance – PE has the resources to consider Environmental, Social and Governance (ESG) issues, when a standalone company may not.

Incremental value added, with proven record of company and fund selection, synergies from being part of ICGT family, and strategy of defensive growth investment decisions

ICGT has achieved incremental benefits by:

- Adding value in this attractive market through portfolio creation, with a careful balanced between i) a concentrated book of high-return, high-conviction ideas, which are directly chosen/managed by ICG/ICGT, and ii) a well-diversified, third-party PE fund portfolio. ICGT's skill in selecting investments for inclusion in the high-conviction portfolio, and in the choice of which funds to invest in, has resulted its top 30 companies having 12% revenue and 17% EBITDA annual growth, as at December 2019.

- Exploiting the benefits of ICG synergies, including economies of scale, market intelligence, experienced investment oversight and access to technical skills. We note that the expansion of the US elements of the book have been materially enabled by having ICG as the manager

Since 2016, when ICG became the manager, ICGT had generated mid-teen underlying annual returns, as it has managed its over-commitment closer to the market level, reducing the return drag from excess cash, and broadened its geographical diversity.

Approach to NAV realistic, bearing in mind long-run average 33% uplift on latest valuation on realisation, no incentive for PE managers to inflate and multiples to cost

We believe investors can trust that the approach to NAV is, in normal conditions, a fair reflection of ICGT's real value, noting i) average 37% uplift on latest valuation on realisation in FY'20 (33% average over five years to FY'20), ii) undemanding valuation ratings on underlying companies, iii) limited incentive for the underlying PE managers to inflate valuation, and iv) the carrying value, at 1.5x cost, well below realised values (2.3x pre-incentive in FY'20).

Investment-neutral features include i) no fundamental Woodford and H2O fund read-across, albeit possibly poor for sentiment, ii) strong corporate governance/conflict of interest management, and iii) a balanced approach to discount management.

Downsides primarily sentiment-related to costs and economic cyclicality. Right vehicle to exploit illiquidity premium.

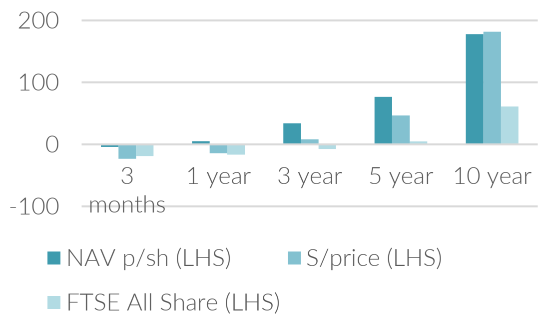
Investment downsides include:

- Costs – PE is a high-cost business, but the market-beating returns are after this investment has been made. We note the ICGT mix means that its costs are above PE fund investor averages – so there may be sensitivity to this issue.
- Perceived sensitivity to turn in economic cycle – we note that, in previous downturns, the declines in NAV have been materially lower than market falls, but sentiment, again, may be an issue in a COVID-19 crisis world.
- Investments are unquoted and illiquid – but ICGT's closed-ended structure is the right one to exploit the valuation anomalies that arise with illiquidity, we believe.

Discount ca.3x recent levels after adjusting for current market ratings

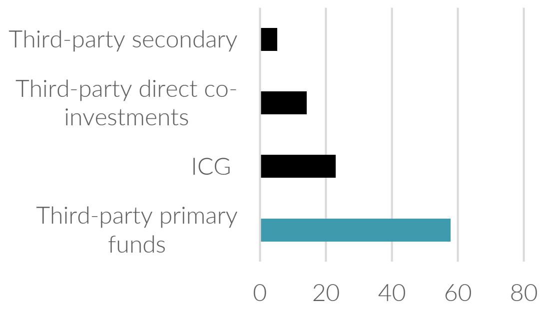
Despite delivering excellent NAV total returns since the current, more balanced approach was taken in 2016, ICGT's discount is slightly above its peers (33% vs. 27%), and well above recent levels. This level is broadly three times the recent historical average, despite the outperformance through the COVID-19 crisis we noted above. We outline possible triggers to a re-rating, including a greater understanding of how and why PE outperforms in downturns.

NAV, share price and FTSE All Share total return performance (%) as at 30 April 2020



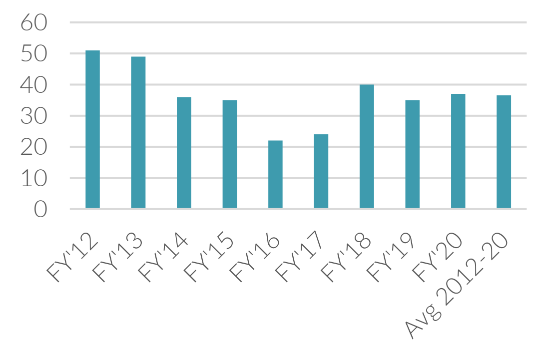
- NAV and share price total return have been consistent, and, over the long term, have outperformed the benchmark.
- An investment in ICG Enterprise made on the year-end date in any of the last 20 years would have outperformed the FTSE All Share Index if still held on 31 January 2020.
- Since the current allocation emphasis adopted in 2016, ICGT has delivered mid-teen underlying annual returns. Outperformance is driven by being in an attractive PE market, having a defensive growth investment decision strategy and how ICGT is managed in that space.
- Realisations to cost have been 2.3x (from FY'12 to date).

Percentage of portfolio in different asset classes (% 30 April 2020)



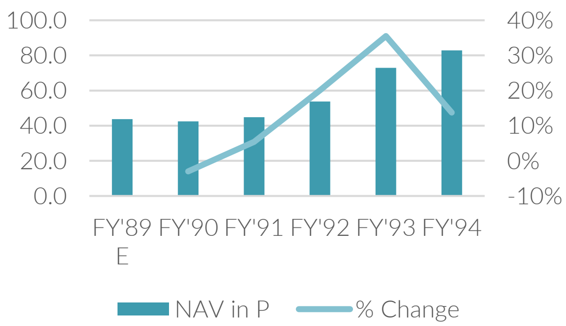
- Portfolio management aims to balance potentially high returns from a concentrated portfolio of high-conviction investments with diversification benefits from funds.
- High-conviction assets (black in chart) have targeted allocation of 50%-60%. Five-year historical average 19% annual return (to FY'20). More than half these investments are either ICG funds or where ICGT invests directly in the underlying company alongside ICG.
- Balance provided by having funds with 40 managers and hundreds of underlying companies, broadly spread by geography, sector and economic exposure. Five-year historical average 14% annual return.

Uplift in value on realisation vs. latest accounting book value (%) and other factors mean NAV approach realistic



- Over the medium term, ICGT's realised value has been 33% above the latest reported book value. Allowing for an exit premium, this gives comfort that the ongoing value is fair (noting timing issue above).
- The January 2020 carry cost was ca.1.5x the book cost. This again appears conservative relative to actual realised values (2.4x pre-incentive accrual).
- The December 2019 implied EV/EBITDA (11.7x for top 30) is below that of peers, with a PEG of ca.0.7x (EBITDA growth ca.17%).
- With performance fees paid only on realisation, there is no incentive for PE managers to inflate valuations.

Recession fears may be more than in price – NAV fell just 3% in early 1990s' recession



- Sentiment is that PE companies are highly cyclical, with high gearing. ICGT's top 30 underlying companies' gearing has been stable (Dec' 2019 debt/EBITDA 4.1x) since FY'17. Academic research and recent performance show that PE-backed companies outperform in downturns.
- In a reasonably "hard" global recession (early 1990s taken as example), ICGT's NAV fell just 3% in one year. In the global financial crisis, the largest annual NAV fall was only 14%.
- ICGT's management has long experience through cycles. ICG's (the manager's) long track record has been of consistent delivery in European corporate funds.

Source: Company data, Hardman & Co Research

Summary

Defensive growth investment decisions

Balanced PE investor

ICG Enterprise Trust (ICGT) is a listed PE investor providing shareholders with liquid access to a portfolio of European and US investments in profitable, cash-generative unquoted companies. It invests in companies managed by ICG and around 40 other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

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". It adopts a bottom-up approach, looking for key business model characteristics that should help an investee company 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. This leads to a focus on well-established businesses, rather than early-stage companies, enabling them 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). 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. ICGT looks for these characteristics in its other managers too.

Lower risk than market delivered in 2020

ICGT has massively outperformed indices through COVID-19 crisis

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 the key near-term points on the defensiveness of the portfolio, relative to the market, are:

- Stock/fund selection has been on a defensive growth basis, with ICGT inherently looking at managing any downside before any deal completes.
- It has done a detailed assessment, covering 84% of the portfolio, based on discussions with the underlying managers, and a review of recent financial performance and liquidity of the underlying companies. Many are performing well, including share price rises in several quoted holdings.
- The portfolio is balanced across a range of developed markets and has large exposures to more resilient sectors, such as healthcare and education (24%), business services (14%) and technology (15%).
- Exposure to industrials (15%) and consumer (16%), sectors with a higher potential impact of COVID-19, is concentrated in high-conviction investments with defensive characteristics and that saw limited falls in value in 1Q. In a number of cases, there is additional structural downside protection, reflecting ICG's expertise in this area.
- There is limited exposure to energy and financials.

Recent performance proves value of defensive growth, with NAV falls well below those of indices

Between the January to April valuations, the investment portfolio return was -3.8% (-7% local currency), with the high-conviction 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 high-conviction portfolio.

Peer comparisons

Range of factors impact performance relative to peers. On balance, ICGT appears in line/slightly better than average.

Looking at peer comparisons, investors additionally need to bear in mind:

- By type of company, ICGT is less invested in growth businesses and has no venture exposure, both of which are likely to have significant defensive qualities.
- By sector, there is a low weighting to energy and financials, and overweight to resilient sectors like healthcare and education technology. ICGT splits out education (7%) and leisure (8%); this is not disclosed by peers. The level of disclosure is not sufficient to be certain (e.g. there are many different types of healthcare exposures), but our overall conclusion is that, on balance, ICGT has a broadly similar exposure.
- By type of company, IGT appears to have a greater focus on larger buyouts than its peers. This is likely to have defensive qualities in terms of scale (e.g. own corporate finance teams working on acquisitions) and investee company experience of prior recessions, as well as access to covenant-lite (cov-lite) borrowing lines. However, smaller companies may benefit more from PE active ownership (in terms of incremental expertise available). They may also have more opportunities for acquisitions and, on average, have lower gearing.
- By vintage, ICGT has been investing more heavily and more recently than its peers and, therefore, investments since 2018 are broadly double the peer average as a percentage of the book. We believe new investments will typically be higher-risk than medium-term investments, as they are likely to have higher financial gearing (albeit cash costs are currently minimal), and the benefits from operational improvements may not be available yet (we detail, in the section on pages 18-20, how PE adds value to investee companies). We note that old positions may reflect an element of adverse selection, with the manager left with positions that are hard to sell.
- By geography, ICGT is, compared with its peers, significantly underweight US/North America and overweight UK (and, to a certain degree, Europe). Investors need to be aware that UK investments often have international/global businesses, and ICGT advises that most of its UK exposure is either like that or in defensive exposures. The defensiveness of the geographical allocation will clearly be dependent on how each country performs, but the reported portfolio mix may see ICGT suffering from relative investor sentiment (on, say, Brexit fears), which may not reflect the real economic exposure.
- The impact of currency movements varies (sterling has weakened since the start of the year, "inflating" the sterling value of US assets). We believe the effect varies because of mix (ICGT has a below-average non-sterling proportion, and so sees less benefit when sterling weakens – see later portfolio section), but also in terms of timing and reporting currency.
- By allocation to a high-conviction portfolio, a striking feature of the April valuation is how the high-conviction portfolio, where the defensive growth investment selection is most evident, saw falls of around one third the level of the third-party funds. As noted earlier, this represents 42% of ICGT's portfolio. While peers do not give an exactly comparable disclosure, we note that co-investments and secondary investments, on average, are a higher proportion of the book than at ICGT.

Need to be careful on timing, as disclosure not always directly compatible

- There are still timing issues. For example, HarbourVest's (HVPE) April NAV was predominantly 31 December 2019, and its May NAV was 10% (based off underlying valuations timed at: 81% March and 9% December). For ICGT's April NAV, 84% of the portfolio was valued using 31 March 2020 (or later) valuations from the underlying managers. We understand the later valuations reflect quoted positions only – a very small proportion of the book.

- Looking at other company-specific performances, we caution against over-reliance on short-term reporting, as a range of noise factors can distort the message. With that huge caveat in mind, we note:

Pantheon NAV drop January to April marginally less than ICGT

  - The extensive work that Pantheon (PIP) did to come to a "Manager's Provision", as a consequence of which it adjusted December valuations down by 8% to update them to end-March. PIP's reported April NAV of 2729.9p (January 2769.7p, i.e. down 1.4%) includes this provision, and has 86% of valuations as at December; it is then updated monthly for forex movements.

HarbourVest fall also slightly less than ICGT

  - As noted above, HVPE effectively reported its March valuations in its May NAV update. The sterling NAV then (£20.79) can be compared with that of the three-month prior (i.e. February) NAV of £20.99 – a fall of 1%.

BPET performance appears marginally worse

  - We note BMO Private Equity Trust's (BPET) comments that the 19% of the portfolio valued at March against December saw a weighted average decrease in NAV of ca.7% (BPET is 48% UK-weighted, 34% Europe and just 16% US, giving a relatively low FX sensitivity). The funds element of this was down by 13.4%, and the co-investment element by 3.8%. *Prima facie*, ICGT's performance has been a little better than this.

Fund drop at lower end of APAX's fund ranges

  - APAX Global, on 13 May, advised that most of its funds, especially the larger ones, had fallen 10%-12% from March on December. ICGT's fund performance of -10% is at the lower end of this range.

Better performance than SLPE

  - Standard Life PE Trust (SLPE) reported a December to March pre-FX effect NAV movement of -12.5%, significantly worse than IGCT's 7% portfolio reduction.

  - NBPE reported, on 22 June 2020, that its NAV was down 9.9% (total return down 8.6%, given dividend payment), when it reflected March, rather than December, valuations (14% valued at 31 May, 86% valued at 31 March).

Prima facie, the overall performance appears broadly in line to slightly better than peers through to April. This is still significantly better than the overall performance of the indices.

COVID-19-specific sensitivity

Hardman & Co's starting point: PE-backed businesses outperform markets in downturn, with access to capital and managerial expertise

Unsurprisingly, much of the FY'20 results presentation and the April 2020 trading update focused on how COVID-19 could impact the business. Our starting point is, as outlined in the section on economic sensitivity (pages 43-47), that PE-backed vehicles outperform the market in a downturn. We believe (and the academic research appears to be in line with our view) that PE providing more certain access to capital is a key factor alongside the operational support it can offer in terms of expertise, scale and procedural improvements. The outperformance is, of course, relative performance. There will be weakness in the downturn, and we note ICGT's April outlook comment that the then impact of COVID-19 would "weigh on valuation in the coming months", but all the historical evidence shows that PE companies' NAVs fall less than the market as whole. Additionally, it can, in due course, present investment opportunities that would not have been available otherwise.

Government remedies greater and quicker than GFC. Cov-lite loan documentation likely to be major positive.

In considering how the macro outlook today compares with the GFC, it is worth noting i) governments' actions have been greater at an earlier stage, and there are indications that they will take whatever steps necessary, and ii) debt documentation has much lower effective covenants, meaning that the probability of default is lower. Cov-lite documentation may allow weak companies to trade through to a recovery, when, in the past, they would not. We explore this feature in some detail in our 12 May 2020 note on Volta Finance.

PE well suited to periods of stress – agile, experienced, resilient businesses, incremental support. Opportunities for higher-return investments likely to have increased.

The company's results presentation led with a slide highlighting that its model was well suited to periods of market stress, reflecting i) an ability to react quickly, ii) experience through the cycle, iii) resilience of mid- to larger-scale buyouts, and iv) well placed to take advantages in due course. We concur with these views and emphasise the incremental support that a PE backer can provide. It gives scale allowing investment in infrastructure and controls that the underlying businesses may not have in isolation. It brings good corporate governance and, in particular, "sleepy managements" cannot stay that way for long. As global businesses, they can bring insights across geographies and, for example, take lessons learned from countries exposed early to COVID-19 into ones suffering later. We believe there will be multiple opportunities going forward, as the ratings for potential targets are likely to be lower, but also as financially weak conglomerates seek to carve out non-core businesses in order to strengthen their balance sheets.

Management highlights portfolio's defensive qualities, weighting to larger companies, geographical diversity and cultural focus on downside protection

This presentation and the April update highlighted:

- The portfolio being weighted towards more resilient sectors (e.g. healthcare 17%, education 7%, technology 15%). Slide 7 or the presentation gave a detailed sector and sub-sector exposure commentary to reinforce the message. The sector exposure relative to UK quoted peers, as we noted above, appears similar in terms of risk profile. Looking at the resilience of some specific sectors, we note:

    - ca.50% of healthcare exposure is concentrated in three top 30 investments, all of which are fully operational and have a "sound" financial position.

    - ca.40% of the industrial total is in three high-conviction investments managed by ICG, with structural downside protection.

    - In financials, sub-sectors include payments and specialty consumer finance. Readers of our reports on our client, Non-Standard Finance, will be aware that we well-managed businesses in that space can deliver stable and even increased profitability in a downturn, as greater demand and wider spreads offset higher impairments. A PE backer is likely to mean that the consumer finance provider is less funding-constrained than peers without such backing.

    - In technology, the main exposure is to software and service business models that have proved resilient. They typically have subscription-based income and a diversified customer base generating recurring revenue.

    - In consumer goods and services (16% of portfolio), ICGT reports that consumer staples/essential consumer services and ecommerce are all performing well. Discretionary consumer services and retail have been more heavily impacted, but have a lower weighting in the portfolio. Over half of our exposure is concentrated in five top 30 investments, where we have strong visibility, with all businesses fully operational.

- o 8% of the portfolio is in leisure, and 3.3% of this is to two companies – Roompot Parks and David Lloyd Leisure – where there has been a significant impact on operations. Roompot Parks is a leading provider of holiday parks in the Netherlands and Germany, and the press reported its sale to KKR on 18 June with a significant uplift to the carry value. The gym business is likely to be a slower recovery area.
- o Exposure to energy is limited.

- ► The portfolio being weighted to larger companies, which, in ICGT's view, should prove more defensive.
- ► The portfolio diversity by geography and concentration (largest position – a French retirement home provider, with 3.9% of portfolio).
- ► The portfolio is manged by ICG plc, whose historical focus on debt gives it more of a cultural bias towards, and experience of, downside protection.

Hardman & Co comment: We concur with management' view about its own resilience. We note that the sub-sectors within broad sectors can have enormous variances – see slide 9 of APAX's 1Q'20 presentation, which shows widely differing degrees of outperformance against benchmarks (business services by 8% against just 2% in tech and telco). We also note that stock-specific factors will add further variance to relative performance. In addition, we believe that ICGT's "defensive growth" philosophy, when picking individual investments, is likely to be very important in determining the final performance over time, as it was in 1Q'21.

Resilience of top 30 holdings illustrated by three quoted holdings, with share price gains since year-end

The top 30 exposures are expected to be more resilient than average, as they are more overweight the resilient sectors and have been directly chosen under the "defensive growth" policy. In particular, management noted that a number of businesses were trading well and the strong performance of the three quoted companies in this part of the portfolio (e.g. TeamViewer online remote support has risen from €31.88 at end-2019 to €49.8 on 2 July, and Ceridian, where a third of the position was sold post year-end at a premium to the January 2020 carry value, has risen from year-end 2019 $68 to $84 on 2 July).

1Q'21 trading

1Q saw realisation on deals agreed pre-COVID-19. Limited drawdowns and commitments.

In 1Q'21, there were 10 full realisations in the quarter, with £34m of proceeds received (4% of opening portfolio value). The majority of the proceeds were from transactions agreed before the impact of the COVID-19 pandemic had become apparent. We note that the realisations were at a 7% uplift to carrying value and at an average of a 2.1x of cost (both multiples below long-run averages, reflecting quarterly noise, where a small number of deals do not represent long-term trends). £5m was received from the completion of a secondary sale at a premium to the underlying manager's valuation. There were £32m of new investments related to drawdowns on existing commitments with no new co-investment or secondary activity. £13m of new primary commitments were made to two funds.

Unchanged dividend

At 1Q'FY21, an interim quarterly dividend of 5.0p was declared, maintained at last year's level.

Outlook

Post end-April activity slowed further. Expect quiet three to six months, but potential pipeline afterwards very strong.

As at 17 June 2020, a further £5m of proceeds had been received since the quarter-end and £1m of new investment, both significantly below the trend observed in recent years. On that date, Roompot Parks was sold to KKR (with a 1.3% uplift to the NAV on disposal). We, and ICGT, believe that the level of drawdowns and new realisations are likely to remain low over the next three to six months, before returning to a normal pace, as economic activity begins to recover. There is the potential for above-trend growth, as larger companies seek to strengthen balance sheets by non-core asset disposals and given potential pricing anomalies in uncertain markets.

Uncalled commitments were £451m, of which £91m were outside their investment periods. Total liquidity was £164m, with gross cash balances of £49m (£9m cash, £40m drawn from facility) and a £115m undrawn bank facility.

Investment case

Investment positives

NAV growth been well ahead of FTSE All Share since current emphasis adopted and through range of economic conditions. Shareholders get a balance between short-term reward via dividend and long-term capital growth.

ICGT's NAV total return has consistently been well ahead of the FTSE All Share level since the current emphasis was adopted. Since being established in 1981, ICGT has delivered a return of ca.45x the original capital raised and, up to FY'20, it had had 11 consecutive years of double-digit portfolio returns. Management also highlights that an investment in ICGT, made on the year-end date in any of the past 20 years, would have outperformed the FTSE All Share index (total return) up to that date. Such consistency of outperformance is rare. The material outperformance reported for 1Q'21 shows the resilience of the model to a downturn. ICGT partially shares immediate returns with shareholders via dividends, with realised reserves and the legal structure giving considerable headroom to continue with a progressive policy.

PE fundamentally attractive market, where PE-backed businesses have long-term track records of outperforming publicly owned or private businesses.

Part of consistently delivering outperformance comes from being in a fundamentally attractive market. We believe PE adds value for shareholders in four key areas:

- Strategy: PE allows a transformation in strategic goals, as well as financial resources to support growth objectives, and facilitate accretive mergers and acquisitions. It means a business can be managed for exit, but still adopt a long-term focus.
- Performance enhancement: measures include operational improvements from adopting sector-wide best practice, the active management of capital structures/finances and the strengthening of management teams.
- Valuation opportunity: PE can buy low and sell high, as i) many private company valuations are lower than listed ones and listed-market sales allow an arbitrage, ii) it is fishing in a bigger pool of potential targets, and iii) extensive due diligence can identify and price-in downside risks.
- Corporate governance: PE has the resources to consider ESG issues, when a standalone company may not. Managers' and shareholders' interests are closely aligned through common ownership at all levels of the investment chain.

Market does not appear to be overheating

There is some evidence that, even before COVID-19, PE was approaching a cyclical peak, but it was a manageable rather than a dramatic deceleration. Growth rates were around half those seen before the financial crisis, with ca.25% more diversification by company numbers and ca.20% less leverage. Additionally, ICGT managers have experienced slowdowns in the past, and there is a much deeper secondary market. As we note in the sections below, post-COVID-19 market-wide activity is likely to decelerate sharply for three to six months before recovering strongly.

ICGT adds value, especially with the balance, on one hand, of a high-conviction, highly concentrated portfolio and, on the other, with a diversified book of PE fund investments. Manager selection and relationships are core skills. Result of this careful selection is portfolio with strong revenue and EBITDA growth.

ICGT adds value to this attractive market in several ways:

- It balances i) a high-conviction portfolio (42% of investments, where the investment decision is directly under the control of ICG/ICGT and which may be expected to deliver high returns – they may carry the risk of some volatility from a concentrated book, which may be only partially offset by ICGT adopting its defensive growth investment decision strategy, with a greater impact on this part of the portfolio), and ii) a highly diversified portfolio of third-party PE funds (58% of book).

- The high-conviction portfolio consists of direct investments (through either ICG-originated business or PE fund manager partners), commitments to five ICG strategies and a small portfolio of fund investments bought in the secondary market. Over the past five years to FY'20, the average return has been ca.19%.

- The diversified fund portfolio's value-added comes from the careful selection of managers. The diversity of PE performance is wider than the market as a whole, and so manager selection is key to performance. ICGT adds value in this area, given its 39-year history, the long experience of its managers and synergies from the ICG group, including a deep understanding of private capital markets.

The result of this careful selection is that ICGT's portfolio is delivering strong revenue and EBITDA growth – 12% and 17%, respectively, as at December 2019.

Book value looks conservative: i) five-year average to FY'20 33% uplift on carrying value on realisation; ii) undemanding valuation ratings on underlying companies; iii) carrying value at 1.5x cost. Additionally, no incentive for PE managers to inflate valuation; appropriate oversight (including long experience of ICGT managers).

We believe the NAV approach is a fair reflection of the real value of underlying assets, bearing in mind that i) realisations have, on average over the five years to FY'20, been at a 33% uplift to the latest book value (37% in FY'20)– even allowing for a sale premium, this gives considerable comfort that the underlying valuations are fair, ii) the carrying value of investments at FY'20 was ca.1.5x book value, compared with post-incentive realised gains of over 2x (part of this gap reflects the immaturity of the book, but, *prima facie*, it appears that the NAV is not inflated by unreasonable, unrealised gains), iii) the underlying company valuation ratings, on which ICGT's NAV is based, are not demanding in absolute or relative terms, iv) there is limited incentive for PE managers to inflate accounting valuations, as their performance fees are based off realised, not accounting, values, and v) ICGT's experience and breadth give it the opportunity to carry out a sense check, and there are the usual external accountants' reviews. We detail below the timing issue and its impact in current market conditions.

Benefits from ICG synergies

ICG family benefits include market knowledge and experience, fee savings, access to investment opportunities, a range of specialist skills, and economies of scale.

Balancing liquidity and returns core management skill. Over-commitment looks reasonable in light of cash/borrowing capacity, likely realisations and relative to peers.

Managing cash is crucial to any business, including PE, where investment drawdowns are spread over many years. To hold cash in advance of such calls is a major drag on returns and, so, industry-wide, there is "over-commitment" in the expectation that cash from near-term realisations will be available to fund part of the new investments. Historically, ICGT was arguably over-conservative in its management of liquidity, with commitments uncovered by cash or existing credit lines making up just 15% of the portfolio in January 2015. This has now risen to ca.40%, much more in line with peers. To be clear, the risk is about future liquidity and investment drawdowns. As at end-April 2020, ICGT had gross cash of £49m cash on its balance sheet, with an undrawn existing credit line facility of £115m. On our estimates, within two years, it will have capacity for further borrowing of ca.£100m. Drawdowns have historically been closely correlated to realisations. Commitments uncovered by existing cash or current funding lines are just over two years' realisations. On our numbers, if geared to 30% – the maximum allowed under the current policy – this drops to around one year's realisations. In contrast, the drawdowns are likely to be spread over four to five years.

ICGT offers liquid access to highly attractive market

ICGT's model gives investors liquid access to a broad spread of PE, including funds that many investors cannot access directly. Its own shares are relatively liquid, giving investors a good route into diversification in the illiquid underlying market.

Investment-neutral factors

No substantive Woodford read-across, and may create business opportunities, but sentiment harder to call

We believe there is no real read-across to ICGT from the situations at Woodford Asset Management and Natixis's H20 funds. ICGT's permanent capital structure makes it an ideal vehicle to exploit illiquid discounts in the underlying assets, its corporate governance appears robust, and valuations seem realistic. ICGT's own shares are liquid. On the upside, there may be a business opportunity in closed-ended funds like ICGT being more attractive to investors and companies wanting to stay private for longer. We believe the downside risk is a general one in terms of sentiment towards illiquid investments.

Corporate governance (directors, independent oversights, conflict of interest management) appears robust

In terms of corporate governance, we note that ICGT has directors who have appropriate market knowledge, have experienced a range of economic conditions, and have clear independence from the manager. The Auditors Report (pages 64-69 of the 2020 Report and Accounts) shows how the auditors tested the manager's valuations . ICGT has the benefit of oversight from ICG. There are clear conflicts of interest policies in place to ensure that there is appropriate independence between the two.

Other issues: i) selective buybacks when economically sensible to do so; ii) KID disclosure on stress-test scenarios in line with peers

The discount to NAV may be reduced by a buyback; however, this can create liquidity issues, worsen expense ratios, and send mixed messages regarding growth prospects. ICGT does not view buybacks alone as an effective discount control mechanism, but uses them financially to enhance returns. The KID stress-test shows that downside risk is in line with peers. There are correlations between this scenario and large discounts (noting that the methodology is unwelcome by many in the market).

Investment risks

PE a high-cost business and, given business mix, ICGT broadly in line with peers. Market-beating returns are after all costs.

There is a market sensitivity to costs, especially as some of the nominal performance fees can be large. However, investors should note that the investment generates market-beating returns after costs. PE requires significant resources to assess deals, and to invest in management and improve performance once positions have been taken. Significant cost is also incurred in aligning manager and shareholder interests in a way that is not possible in public markets. Due diligence, investment and manager alignment are all necessary to deliver to the value-adding proposition.

Management fee in line

Relative to PE fund investors, ICGT has an above-average cost base, although, relative to direct investors, it is broadly in line. The management fee (headline 1.4%, effective 1.2% in FY'20) is broadly in line, and there are no management fees at the ICGT level for its primary or secondary investments managed by ICG or Graphite Capital (nearly a quarter of the portfolio at end-April 2020). Where direct investments have been made (a further quarter), there is only the ICGT manager fee and no underlying manager charges. In total, nearly half the portfolio is on a single, rather than double, fee structure.

Performance fees equated to 7% of gains over 10 years

Performance fees are, again, broadly in line with those of peers, recognising the mix (KID carry cost 2.8%, vs., say, 2.6% at SLPE and 3.8% at HG Capital). They are variable and, in cash terms, are paid out only on realisation, and they are not triggered by unrealised accounting value changes. ICGT advises that the accrual for incentive costs has equated to under 7% of gains over 10 years. ICGT's "other ongoing costs" are slightly above the PE fund average, which we believe is primarily mix-driven.

Sentiment is that PE is cyclical, but evidence shows continued outperformance, even in downturns. ICGT's largest annual falls in NAV were 3% in early 1990s' recession and 14% in financial crisis. Only one year of declines in both scenarios. April 2020 valuation falls well below market.

We believe a further investor concern is how ICGT will perform in the event of an economic downturn (COVID-19 or any other). We note that, in the early 1990s' recession, ICGT reported a 3% fall in NAV for one year only, and a rapid accretion every year thereafter. Even in the financial crisis, the only annual fall in NAV was 14% (FY'08), which was well below stock market declines. Including intra-year numbers, the peak-to-trough drop was closer to 25% – again still below the market. The April 2020 update showed materially lower falls than market indices, re-emphasising the resilience of the portfolio.

A downturn has several potential impacts: i) a weaker trading outlook for the underlying companies – as shown below, the academic research concludes that PE-backed companies continue to outperform, aided by greater certainty in finance; ii) ICGT's realisation rate is likely to fall (by seven-eighths 2009 on 2007), as will investment drawdowns; iii) there is a higher risk of default where companies have more leverage – the portfolio leverage has been stable (at 4.1x EBITDA December 2019), reflecting mix and weightings impacts – also, higher leverage is partially offset by the increased prevalence of cov-lite documentation, which reduces the probability of default; iv) the valuation rating applied to underlying companies is likely to decline with market falls, reducing the NAV (as we noted above, ICGT's ratings are below those for peer PE companies, and historical falls have been modest); and v) there are likely to be more re-investment opportunities at lower prices – on the downside, sentiment is likely to be adverse, widening the discount. We explored how this resilience could help the COVID-19 sensitivity in the section above.

Right vehicle for illiquid and unquoted investments. Can take advantage of illiquidity premiums.

While ICGT's investments are largely unquoted and potentially illiquid, investors can take comfort from i) the permanent structure of the closed-ended vehicle reduces the chances it will ever be a forced seller at distressed prices, due to redemptions from shareholders, ii) there is appropriate gearing and liquidity, and iii) the relatively conservative commitment policy. Indeed, illiquidity discounts in the underlying companies often generate a valuation opportunity for ICGT to exploit, and are a core part of the business.

Other issues include i) inherent subjectivity in valuations – we believe the valuation is conservative, but there is an element of interpretation by the underlying managers (with some peers, the same asset has been valued differently by individual managers, and we also note there has been a rising valuation rating and there is a short delay in the timing of valuation), ii) the discount has been a feature for a long time – noting that there are examples where such a discount has been reversed, and iii) there can be short-term noise around currency movements.

Investment attractions

Consistent long-term value-added

Summary

Market-beating returns over short, medium and long term, through range of economic conditions.

ICGT's NAV total return has consistently been well ahead of the FTSE All Share level, whatever economic conditions are being faced. With some volatility, the share price has followed this performance, especially over the long term. Since being established in 1981, ICGT has delivered a return of ca.45x the original capital raised. Management also highlights that an investment in ICGT, made on the year-end date in any of the past 20 years, would have outperformed the FTSE All Share index (total return) to end-January 2020. Such consistency of outperformance is rare. ICGT partially shares immediate returns with shareholders via dividends with realised reserves and a legal structure, giving considerable headroom to continue a progressive policy.

Total return performance (%) as at 30 April 2020

	NAV per share	Ord. share price	FTSE All Share total return	NAV vs. FTSE All Share
3 months	-4.1	-23.4	-18.8	0.2
1 year	5.0	-14.3	-16.7	-0.3
3 years	34.1	8.1	-7.5	-4.5
5 years	76.7	46.7	4.8	16.0
10 years*	177.9	181.8	61.1	2.9

**Company year-end changed in 2010, so figures are for 121-month period to 30 April 2020*
Source: Company results (latest NAV disclosure), Hardman & Co Research

Returns been in line with average from broad range of PE peers

ICG was appointed manager on 1 February 2016, with the Graphite Capital fund investment team transferring to ICG and the company changing to its current name. While the fundamental approach (and fund manager) was unchanged, the portfolio has seen an increasing focus on i) high-conviction, ICG/ICGT investment decision-controlled investments, ii) reducing the cash drag on returns, and iii) a shift from UK to US investments. The table below shows comparative performance, noting the caveats around timing and forex noted above. Compared with some of the direct investing PE companies, for example HG Capital, the returns are generally lower, as may be expected (again partially forex-related); however, ICGT has been less volatile.

Cumulative NAV performance: comparison with peers (%) on ICGT's latest reported NAV (31/04/20)

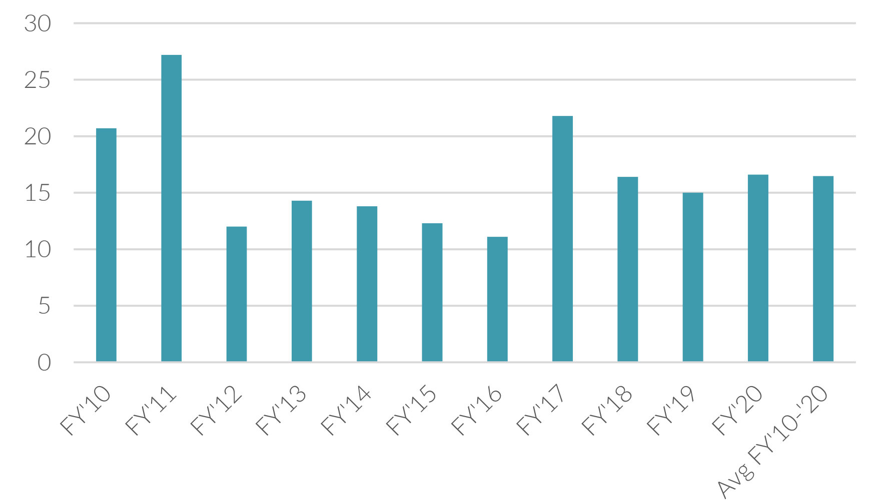
	1 year	3 years	5 years	10 years
ICGT	5.0	34.1	76.7	177.9
BMO Private Equity Trust (Mar'20)	10.5	30.7	79.2	n/d
HarbourVest ($)*	3.8	33.6	56.3	196.5
Pantheon	5.0	29.9	77.8	194.3
Standard Life Private Equity**	17.7	47.0	97.7	207.8
HG Capital (Mar'20)	15.2	55.3	120.2	224.7

**May NAV to capture March underlying valuations; medium-term sterling performance will be higher given FX effects; **April factsheet based off pre-COVID valuations*
Source: Company websites, factsheets and presentations. Hardman & Co Research

Key driver is consistency in portfolio growth

The key driver to understanding ICGT's substantial total return outperformance against the quoted market has been the delivery of double-digit underlying portfolio growth over the long term (16.5% average over 10 financial years to FY'20). The consistency of this performance (all years over 10%) is another important benefit for shareholders.

Underlying constant-currency portfolio growth (%) from FY'10 to date



Source: ICGT Report and Accounts, Hardman & Co Research

Dividends and capital growth

ICGT returns part of its returns to shareholders via dividends (yield 3.1% FY'20). Its realised reserves and legal structure give considerable headroom for distributable reserves to maintain progressive dividend policy.

A part of the shareholder returns is given in dividends. ICGT is committed to growing its annual dividend progressively and, in 2018, it moved to quarterly dividend payments. From FY'17-20, "progressive" meant adding 1p p.a. to the dividend, with the FY'20 dividend of 23p representing a yield of 3.1%. Despite market conditions, the 1Q'FY21 dividend was maintained at last year's level.

The company highlights that its progressive dividend payments are "subject to having distributable reserves." We believe the comment reflects the conservatism required in modern-day statutory filing and does not present a real impediment to paying dividends. Only realised profits are available to be distributed. For ICGT, the capital reserve is £771m, of which the realised capital reserves are £357m, and so are available for distribution.

PE should enhance value

PE adds value

We believe the excellent long-term track record identified above reflects both the positive underlying market and the value added by ICGT in that market (see next section). The success of the value added by PE is reflected in the number of US PE-backed companies rising to ca.10k in 2018, from 5k in 2007 and under 2k in 2000. The number of listed companies fell from ca.7k in 2000 to ca.5k in 2007 and to ca.4.4k in 2018. The theoretical advantages we identify below, and which ICGT highlights on pages 8-9 of its Report and Accounts, have a proven track record in practice.

Techniques used by PE managers to create value

Stage	Process
Strategy	
Transforming strategy	PE creates flexibility to adopt a new business model, repositioning a business within its sector, diversifying its markets and implementing a credible growth strategy. PE managers' broader market knowledge may bring insights unavailable to the stand-alone entity.
Capital expenditure	PE can provide the necessary financial resources to support business growth objectives.
Accretive mergers and acquisitions	Growing scale, increasing sales and operational capabilities, improving a company's position within an industry and releasing synergies to unlock growth. PE backers can also help target company sourcing, due diligence and integration.
Managed for exit	Part of a PE manager's skill is expertise in achieving a high-value sale. We believe that an incremental aspect to this is that the businesses are being actively managed, with the expectation that there will be corporate action. By grooming such businesses for sale, there is inherent value creation. We note that, in the public markets, a sale would typically be at a premium of 25%-30% to the pre-sale price.
Long-term focus	Compared with public companies, a PE-backed company can afford to focus on long-term performance without the distraction of meeting short-term expectations. We believe the PE managers exert appropriate controls to ensure that there is oversight, and that this long-term focus does not become an excuse for short-term underperformance.
Performance enhancement	
Active management of capital structures/finances	Using banking and debt relationships developed across the PE manager's platform can optimise funding. Additionally, PE managers bring significant financial and capital markets expertise to the businesses in which they invest – a skill base the underlying company may not have on its own account.
Operational improvements	PE can generate superior top-line growth and margin expansion, helping to develop new products, geographies, enhanced sales force effectiveness, process optimisation and the use of technology. PE sector knowledge allows the transfer of best practice in a way that a small business cannot.
Strengthening management	Making new hires and adding industry specialists who bring fresh perspectives and the expertise that can drive the business further forward. Membership of Board and Advisory Committees. The alignment of financial interests, and strategic optionality, may see the "best" possible talent attracted.
Valuation opportunity	
Lower target valuations	Many private company valuations are lower than listed ones, creating an arbitrage opportunity whereby PE companies can buy private companies and transform them over time into listed ones.
Fishing in bigger pool	The pool of companies PE can target is deeper and broader than the quoted market. Aberdeen Standard believes there are five times as many private company opportunities as listed ones.
Due diligence in PE process	The PE process itself involves extensive due diligence, often with inside management information. The depth of investigation is typically more than would be seen for most public companies –although this requires significant resourcing (see cost section below). PE managers are typically sector-focused and have detailed knowledge of potential investee companies' competitive landscape.
Corporate governance	
Governance and responsible investing	ICGT believes that, through investing responsibly and considering ESG issues at all stages of the investment cycle, PE is able to manage ESG risks to generate long-term sustainable returns. PE has the resources to consider such issues when a stand-alone company may not.
Manager/shareholder alignment	Managers' and shareholders' interests are closely aligned through common ownership at all levels of the investment chain. The underlying company managements typically are incentivised with share-based performance incentives. The PE manager's performance fee is typically paid only once the fund has returned 100% of capital, plus a hurdle (typically 8% p.a.). After that, gains are typically split 80% to the investor and 20% to the PE manager (this fee is called "carried interest" or "carry").

Source: Hardman & Co Research

PE was not over-heating pre-COVID-19

Some evidence PE approaching cyclical peak before COVID-19, but growth rate around half that before financial crisis, with ca.25% more diversification by company numbers and ca.20% less leverage. Additionally, managers experienced the slowdown.

Some investors are concerned that the PE market may have been overheating in recent years, making the sector even more exposed to any COVID-19 downturn. Such a view is supported by deal volumes and pricing in 2018 – for the first time – matching the 2007 highs (see chart on pages 6-8 of the Bain report for more details on pricing), an increasing prevalence for cov-lite debt and rising "dry powder" (committed PE funds concentrated in recent, large funds that have yet to be deployed). Noting the PIP data above, other data sets indicate that global PE invested capital (excluding venture capital) fell in 2019 vs. 2018[1] and that buyout volumes were down 10%.[2]

[1] NBPE February 2020 presentation, slide 31
[2] https://www.bain.com/globalassets/noindex/2020/bain_report_private_equity_report_2020.pdf p5

In the light of this conflicting evidence, we believe investors should note that:

- The private markets are considerably larger (some estimates double[3]) than they were in 2007 – so the growth rate is smaller, and any "bubble" is less inflated.
- The average PE deal size has been rising steadily, but is still ca.20% below the 2007 levels, with ca.25% more companies being invested in for the same value of investment. Similar deal values mask greater underlying company diversity,
- Average deals are less balance sheet-levered – while the valuations to EBITDA multiples are broadly similar, equity now accounts for half the valuation, whereas it was just over 40% in 2007.
- Disclosure is significantly enhanced.
- Many market participants have been through the financial crisis – with the scars to prove it.
- The average duration of dry powder (i.e. years to deploy) has risen over the past few years, but is back only to the level of 2012/2013 and well below the peak of 2007 (see page 12 of the Bain report for more details).

Dry powder is concentrated in larger funds (still early in their investment periods), which may enhance OCIS exit options in due course. There is a much deeper secondary market.

- The dry powder has been raised only relatively recently, leaving several years for the funds to deploy it in their investment phase – so there is no rush to invest.
- The growth in the secondary markets provides liquidity for fund investments, which was simply not available in 2007. There are now more tools to manage portfolios than in the past.

ICGT adds value to this attractive market

Summary

ICGT adds value to this attractive market in several ways:

ICGT adds value in its portfolio management, especially the balance, on one hand, of a high-conviction, concentrated portfolio and, on the other, with a diversified book of PE fund investments. Manager selection is core skill. Result of this careful selection is portfolio with strong revenue and EBITDA growth.

- **It balances i) a high-conviction portfolio (42% of investments where the investment decision is directly under the control of ICG/ICGT and that may be expected to deliver high returns) – we believe it carries the risk of some volatility from a concentrated book, which is partially offset by the defensive growth stock selection, and ii) a highly diversified portfolio of third-party PE funds (58% of book).**
- **The high-conviction portfolio consists of direct investments (through either ICG-originated business or PE fund manager partners), commitments to five ICG strategies, and a small portfolio of fund investments bought in the secondary market. Over the past five years to FY'20, the average return was ca.19%.**
- **The diversified fund portfolio value-added comes from the careful selection of managers. Once a commitment is made to a fund, ICGT has zero control over how or when the deployment of capital takes place. The diversity of PE performance is wider than the market as a whole, and so manager selection is key to performance. ICGT adds value in this area, given its 39-year history, the long experience of its managers, and synergies from the ICG group, including**

[3] NBPE February 2020 presentation, slide 27

a deep understanding of private capital markets supplementing ICGT's own team expertise in this area.

- **The result of this careful selection is that ICGT's portfolio is delivering strong revenue and EBITDA growth – 12% and 17%, respectively, as at December 2019.**

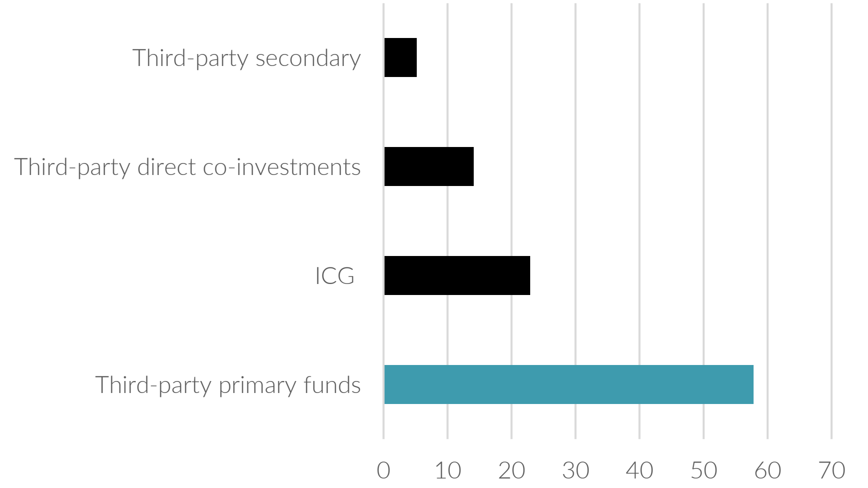
Portfolio management

Portfolio evolved in 2016, with focus on increasing deployment into high-conviction investments, geographical diversification and reduced cash drag

ICGT was managed by the same individual manager/team for many years up to 2020, but, on the transition to ICG as the manager in 2016, ICGT has evolved into a more balanced portfolio.

- There is a greater focus on high-conviction accounts, where ICG/ICGT have control of the investment decision.
- The ICG funds incur only a single fee; under the previous fund manager (Graphite Capital), this would have been a double fee.
- The ICG market knowledge and experience allowed a greater geographical diversification, most notably in North America.
- ICGT was willing to accept a greater degree of over-commitment (but still below peer averages), assisted by ICG's skill base in treasury management.

Percentage of portfolio in different asset classes (% at 30 April 2020)



Source: April 2020 quarterly announcement; from previous disclosure, broadly half the ICG exposure is to co-investments and half to funds; Hardman & Co Research
High-conviction elements of the book are shaded in black

High-conviction portfolio (42% book)

High-conviction portfolio now 42% of book, with target of 50%-60%

At end-April 2020, 42% of the portfolio was in high-conviction investments. Progress to the target 50%-60% weighting (i.e. when the majority of the book will have immediate investment decision by ICG/ICGT) has been steady, reflecting both careful selection of assets for this portfolio (at times, a limited supply of opportunities meeting the hurdle rates) and realisation.

Been high return (19% p.a.), and allows more direct investment decision-making, but carries advantages and disadvantages of concentrated book

In the five years to January 2020, the constant currency returns in this part of the portfolio averaged 19%, i.e. delivering proven, sustained, superior returns. However, this is relatively concentrated. We estimate that nearly a seventh of the total book is in just six ICG managed companies. This element of the portfolio is targeted to deliver the best risk-adjusted returns but, being concentrated, there may be a greater element of stock-specific-driven volatility (up and down) in the valuations, notwithstanding the defensive growth stock/fund selection. We note that the outperformance of the book through the COVID-19 crisis has been material.

Portfolio includes co-investments (ca. quarter of total book), where ICGT has developed clear strategy that fits with PE managers. Own due diligence conducted on all investments and ICGT takes up less than 10% of propositions initially put to it.

High-conviction investments include investing directly in companies, alongside both third-party managers (13.8% as at January 2019) and ICG-originated deals (11.4% January 2019). To be effective with making co-investments, where opportunities are at the invitation and discretion of the PE manager, requires a considerable number of features, including i) regular contact with the PE managers, keeping them advised of appetite and capacity, ii) being able to turn around decisions on the PE manager's time scales, and iii) a rapid decline of unattractive propositions, especially for simple reasons, such as cyclicality (we understand that ca.80% of the propositions presented to ICGT are quickly turned down, principally for this reason). ICGT 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. As we detail below, the current portfolio is towards defensive growth, which fits in well with the ICG "credit approach" culture, where the focus is also on downside risk. ICGT has an iterative investment committee approach, and, overall, we understand, accepts under 10% of the propositions it receives.

ICG fund investments (ca. tenth of book) focused on those giving 15%-20% return and with very long, proven core competencies

ICG funds and co-investments account for 22.9% of the portfolio (broadly half each) and a ca.5% higher proportion of undrawn commitments. The funds are limited to five of ICG's strategies (see *Appendix 4* for more details). Looking at the ICG strategies, most of the current investments are to the long-established and proven ICG European strategy, while most of the undrawn commitments are to newer strategies, established since 2016. Management emphasises that, in the North American, Asian and European mid-market strategies, the basic competencies are the same as the long-established European strategy.

- In reality, only the Strategic Equity strategy requires different skills. This is only a small part of the commitments, and has a broad mandate, but one area of proven value-added has been buying stakes off funds that are well into the payback period and where the investors are looking for liquidity, rather than the maximum price. Such investments clearly play to ICG/ICGT's skills.

Not a debt fund

- ICG's core business means it makes investments across the whole capital structure of private companies. This introduces an element of defensiveness to the portfolio, as the pure equity positions will bear the first economic loss. However, ICGT is only targeting ICG funds aiming for 15%-20% annual returns and not all of ICG's 21 strategies. The strategies in which ICGT invests give equity or quasi-equity returns. Taking the example of an investment in the same company that has HG Capital as a shareholder, ICGT would expect to earn a lower return on the upside and a higher return on the downside, but the difference is not material and is not a key sensitivity for investors.

Small element (5% portfolio) of secondary positions acquired in market

The final element is third-party secondary investments. Here, ICGT is investing in funds that have established a track record of performance under PE ownership. The entry price may reflect willing sellers, where, for example, a fund is close to maturity. Market volumes are increasingly liquid (trades in 2019 totalled $88bn), and we understand the average discount to NAV in the secondary market is 5%-10%. This is driven by mix, with the secondary market having a greater percentage of lower-yielding, older assets than the ICGT portfolio as a whole. Indeed, we note that, in

1Q'FY21, ICGT made a £5m disposal of a secondary position at a premium to the underlying manager's valuation.

In FY'20, 39% of cash deployments were into high-conviction investments, reflecting the selective nature by which they are chosen.

Diversified third-party fund portfolio (58% of book)

ICGT has investments with around 40 leading PE managers, accounting for 58% of total portfolio. With over 500 underlying companies, this generates significant sector, geographical and market diversification.

The second element of the portfolio is designed to deliver more diversity and greater stability in returns. Again, taking a five-year view to FY'20, the returns were ca.14% p.a. ICGT has primary investments with around 40 leading PE firms, of which 28 relationships are current (i.e. new commitments continue to be made with these firms and firms currently managing funds in their investment period for ICGT). We understand that there are in excess of 500 companies in this part of the book, consisting of:

- Funds managed by the former manager (Graphite Capital www.graphitecapital.com) account for around an eighth of the portfolio and are focused in the mid-market space. New commitments are being made to Graphite Capital funds but, over time, we expect this proportion to reduce.
- Primary funds of other managers, whose bias is mid- and large-cap European and US, account for nearly half of the portfolio. Some of the larger fund exposures (as at 31 April 2020) were Gridiron Capital Fund III (value £25m), CVC European Equity Partners VI (£18.5m), Thomas H Lee Equity Fund VII (£16m) and BC European Capital IX (£16m). ICGT claims multi-year and multi-fund relationships with many of these managers, who also provide a flow of potential co-investments for the high-conviction book.

In addition to investments in the funds, these relationships provide invaluable information flows and co-investment opportunities.

Manager selection is key, and ICGT focuses on tried and tested teams

Performance across PE funds can be very diverse, and manager selection is a key competence. 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.

New investments

Focus on new investments is areas with defensive growth, structural downside protection and relative value

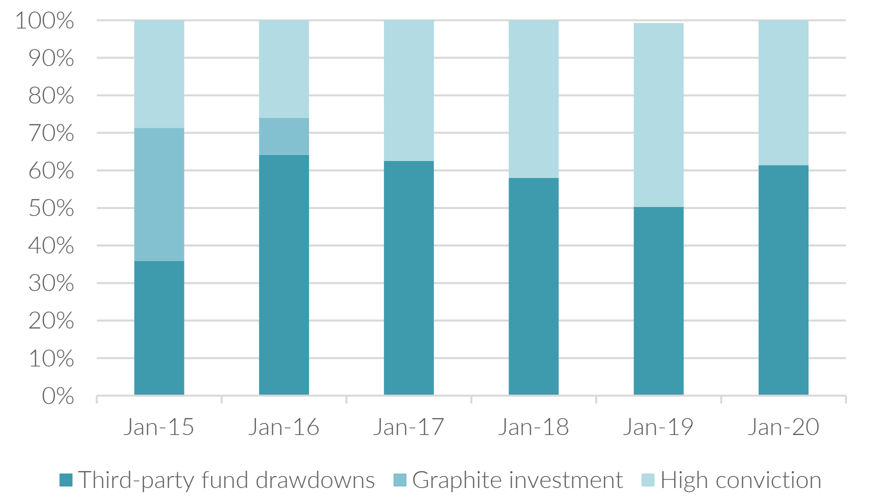
Management has identified three opportunities in the current market for new commitments:

- Defensive growth – focused on businesses with low correlation to the cycle and strong market positions in growing markets.
- Structural downside protection through ICG-managed assets and investing across the whole capital structure.
- Relative value – fund re-capitalisations alongside ICG give ICGT an opportunity to invest at 6x-7x EBITDA, and include some late primary fund investments where ICGT may invest at cost, even though the portfolio may already have been marked up in value.

Trend for steady decrease in new investments to third-party funds and greater deployment in investments under ICG/ICGT's direct investment decision control

The trend is for new investments over time. In any given period, there will be specific opportunities/drawdowns of historical commitments. Over time, there has been a visible reduction in commitments to Graphite.

New investments by type (%)



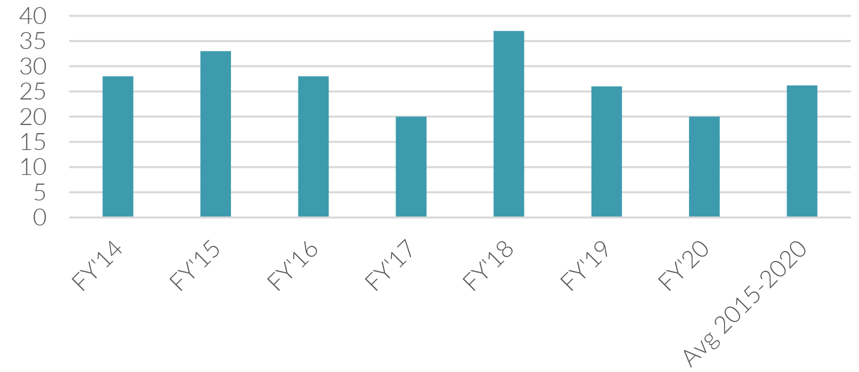
Source: ICGT results presentations and announcements, Hardman & Co Research

Realisation activity

The chart below shows the strong conversion of the portfolio into cash, with an average (since FY'14) cash conversion rate of 26%. Given the growth in the new investments and the portfolio, as management has focused on reducing the cash drag, the continued high level of cash conversion is impressive.

Cash conversion remains strong

Cash conversion (i.e. proceeds excluding secondary sales) as % of opening portfolio



Source: ICGT results presentations, Hardman & Co Research

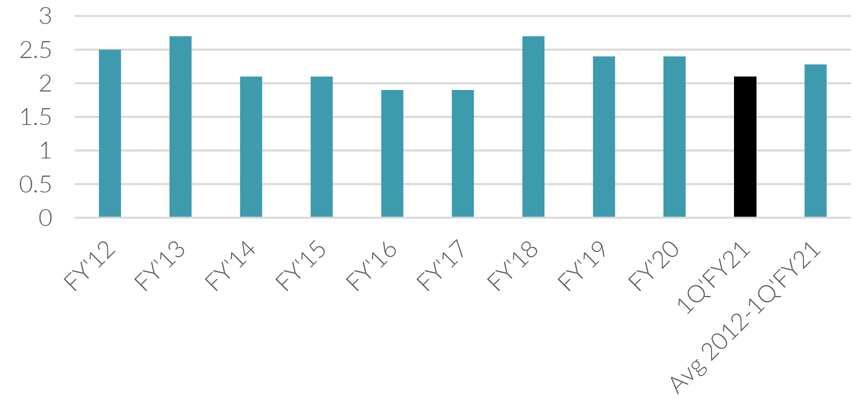
ICGT not reliant on IPOs for exit

We note that ICGT is not reliant on public markets for its exits. There is a trend towards companies staying private for longer, and the market has seen more trade, and strategic and secondary PE buyers, rather than IPOs. In FY'20, seven of the top 10 realisations were to a financial buyer, one to restructuring, one to a sell-down post IPO and one to a trade buyer. It is unclear whether the sentiment that can close IPO markets will have the same impact on these buyers, but having realisation/drawdown activity closely related is important to the consideration of over-commitment.

On average, delivered returns of 2.3x cost (pre-incentive, ca.2x post), with average hold period of around four to five years

Another way to consider the value-added is to look at the return on cost that ICGT has delivered. The chart below shows realisations compared with costs since FY'13. The average since that date has been 2.3x, with an annual range of 1.9x to 2.7x. Even in the challenging 1Q'FY21, the ratio was 2.1x cost. These ratios follow the industry-standard approach of measuring returns pre-incentives (adjusting for this, we believe that the returns are still in excess of 2x cost, with an average hold period typically ranging at around four to five years). We believe the message is one of consistently delivering substantial uplifts.

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



Source: ICGT Report and Accounts, Hardman & Co Research

Compared with peers, this gain against costs is at the lower end of the range. For example, both PIP (3.3x for FY to May 2019, 2.4x FY'18, 3.0x FY'17) and NBPE (2.5x FY'19, 1.9x FY'18, 4.4x FY'17, 2.1x FY'16) appear to have higher returns. Given the NAV growth relativities, this relative position is surprising. We believe there may be some definitional issues (e.g. ICGT's data cover all realisations, while those for PIP are based off a sample covering 49% by value of distributions, and covering primary and co-investments only). Foreign exchange gains could also be factor and, clearly, the numbers can be very volatile in different years. ICGT was not aware of any reason why its business should be delivering a lower multiple than that of its peers.

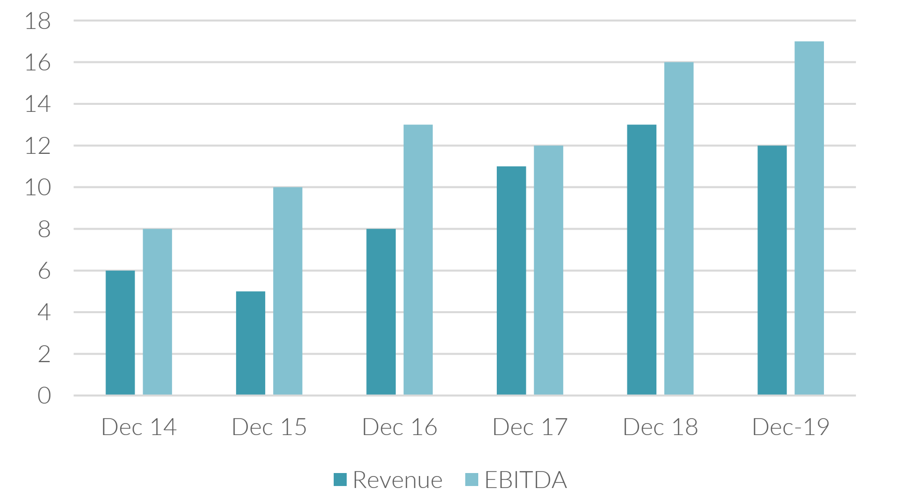
How all of this adds value for shareholders

The result of this careful selection is that ICGT's portfolio is delivering strong annual revenue and EBITDA growth – 12% and 17%, respectively, in December 2019.

The careful selection of co-investments and funds means that ICGT's underlying companies have strong fundamentals. The chart below shows the revenue and EBITDA growth for ICGT's top holdings over recent years. The ca.17% EBITDA growth recently delivered is well ahead of quoted market growth. The growth rates are comparable with direct investing peers (which is, perhaps, not surprising, as ICGT's top positions have a heavy weighting to its high-conviction ideas). For example, NBPE reports 12% revenue and 16% annual EBITDA growth for its largest companies. Quoted companies investing in PE funds show more volatility, with PIP reporting ca.20% and 25%, respectively, while HVPE reported an 11% weighted-average EBITDA increase on the prior year.

The changing dynamic shown in the chart below (a greater proportion of bottom-line growth being driven by top-line revenue growth) needs to be treated with a degree of caution. We understand that it is significantly mix-driven. *Inter alia*, we understand that the concentration of the top 30 companies has reduced since 2016, thus taking down the disproportionate effect of a small number of large, but slow-growth, businesses. ICGT's companies do see operating performance improvements under its ownership, but the rate of operational performance has not changed materially.

Top 30 investments – revenue and EBITDA growth (%)



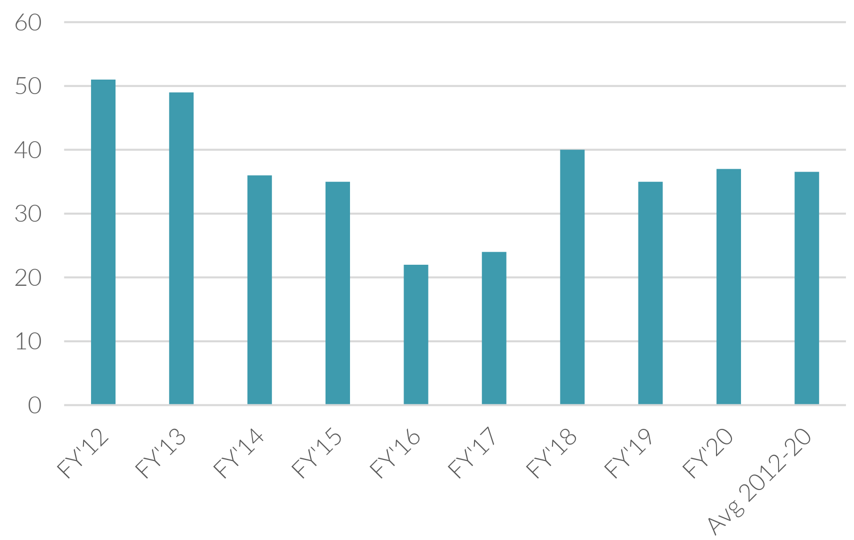
Source: ICGT results presentations, Hardman & Co Research

Realisations have, on average, been at a 33% uplift to last book value. Even allowing for sale premium, this gives considerable comfort that underlying valuations are fair.

ICGT: sale uplift to current book ca. a third

When trying to assess the real value of the portfolio, investors also need to consider how realistic the accounting valuation is. ICGT has an excellent record of delivering an uplift to the last reported valuation when it realises assets and thus converts its investments to tangible cash. In recent years, this uplift has, on average, seen an uplift on sale of around a third. While part of this may be attributable to the sale process itself (as noted above, in our view, likely to be 25%-30%), the fact that ICGT's average uplift is above this level provides considerable comfort that the underlying valuations are fair. We note that the 1Q'FY21 uplift was just 7%, reflecting a limited number of disposals and "quarterly noise", rather than any change in trend. The Roompot disposal on 22 June appears to be at a significantly higher uplift.

Uplift in value on realisation against last accounting book value (%)



Source: ICGT Report and Accounts, Hardman & Co Research

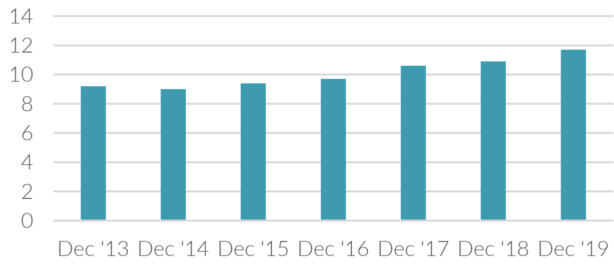
We note that the 37% uplift on the last valuation in FY'20 is ahead of that of many peers. NBPE reported a 30% uplift compared with valuations three quarters before (as part of the exit value is recognised at an earlier stage). PIP reported a 36% uplift on the value a year before. HVPE reported eight consecutive uplifts of at least 30% on carrying value at exit.

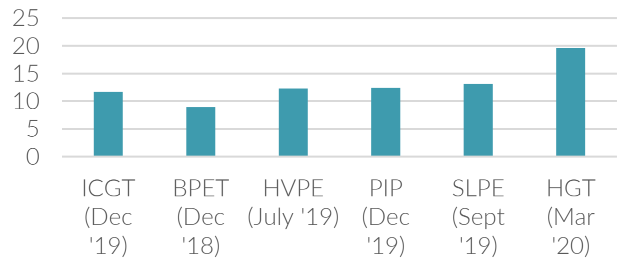
Noting COVID-19 timing issues, ratings on which valuations are based not demanding in absolute or relative terms

Implied valuation multiples not demanding

ICGT provides some data on the valuations of its largest 30 companies. As can be seen in the chart below, EV/EBITDA at the end of December 2019 was 11.7x. This has been on a gently rising trend, and remains the second most conservative multiple among the immediate peers. By way of comparison, HG Trust, which is focused on direct investment, primarily in technology companies, has an implied multiple of 19.6 (March 2020). We note that, at the end of 2019, US public markets were trading on an average multiple approaching 13 (tech-heavy by comparison with ICGT), while European markets are trading at an average multiple of ca.10. Any small premium valuation, if there is one, to these market multiples reflects the significantly faster EBITDA growth that ICGT's portfolio has consistently delivered.

EV/EBITDA multiple for largest 30 companies, 2013-19 (left-hand graph) and compared with peers (right-hand)





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

Increase in overall EBITA multiple driven by mix change, including greater proportion of US and TMT businesses

In its 2019 annual results presentation (slide 31), ICGT gave the distribution of the multiples for its 30 largest underlying companies (no comparable split was given this year). Approximately a third of the book was valued off EV/EBITDA of 10x or less, and a similar proportion in each of 10x-12x and in 12x or more. The increase in the average multiple has been driven by a falling proportion of below 10x (which was ca.55% as at December 2013 and is now down to a third), matched by the rise in the proportion of the book on 12x or more (up from a sixth of the book then to around a third now). Management attributes this primarily to a change in mix and weightings to the larger companies, with only a modest increase in the like-for-like multiples. This assertion is supported by the increasing proportion of the book in higher-rated US companies (January 2014: 14% of the book, April 2020: 32%) and sector mix changes, such as TMT (up from 8% to 15%).

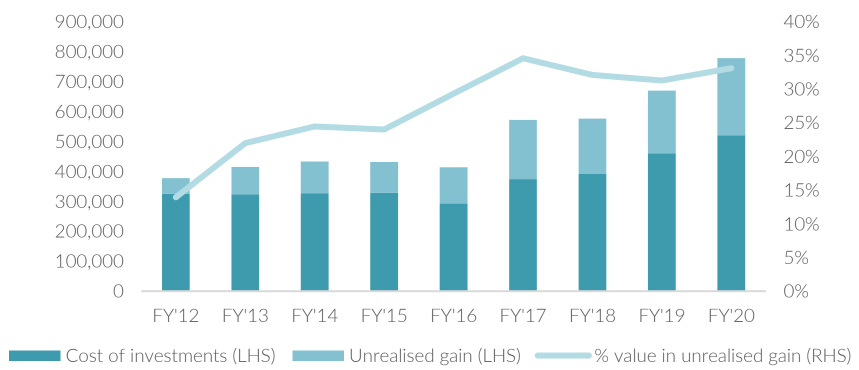
Carrying value just 1.5x cost

On latest disclosure, unrealised gain at January 2020 was third of carry value (or, put another way, carrying value is 1.5x its cost), well below level at which investments have been realised. Message for us is that there do not appear to be unjustified unrealised gains inflating NAV.

Valuing private companies in public funds has always involved a degree of management judgement. We believe investors can take comfort not only from the significant uplift on realisation, and reasonable ratings applied to the underlying companies, but also from the accounts. To assess this, we have tried to look at the value of the portfolio broken down into its cost, and the unrealised gain recognised at the time of the accounts (note 10 to the 2020 Report and Accounts). There is always a devil in the detail, and we understand the cost presented is based on "reducing cost", whereby distributions are credited against cost until cost becomes nil. This is consistent with fund and fund peers, and it means the cost is not absolutely like-for-like with the gross realisation gain. However, we understand that the overall distortion is limited and that the conclusion is robust.

While some investments are still immature, the 1.5x carrying value can be compared with the ca.2x cost (post-incentives) at which realisations have been made.

Breakdown of portfolios into their cost of investment and unrealised gains



Source: ICGT Report and Accounts, Hardman & Co Research

NAV approach conservative – other issues

Limited incentive for PE managers to inflate valuation, as performance fees based off realised, not accounting, values. ICGT's experience and breadth give it opportunity to carry out sense check, and culture appears conservative. Usual independent checks and balances.

We cover the COVID-19 timing issue later in this report but, additionally, we believe investors should focus on the following key approaches to NAV: i) there is no incentive for PE managers to inflate their valuations, as their performance fees are based off realised, not accounting, values – indeed, given the potential to lose credibility if they make sales below their book value, and the tax treatment in certain jurisdictions, there may be an incentive to keep valuations low; ii) ICGT's experienced team has been through all trading conditions, and so can judge the appropriateness of valuations; iii) the culture of the organisation, which we believe to be relatively conservative – by way of example, we understand that many companies are valued on a lower EBITDA multiple than that on which they were acquired, despite the operational improvements that PE brings; iv) we understand valuations are relatively timely, with over 90% of the valuations in the January year-end accounts (reported in April) based off December valuations; v) we note that all realisations are included in the multiple of cost calculation – so this number includes all those sold below the carry value; and vi) there are the usual independent checks and balances, including auditors' reviews.

ICG brings benefits

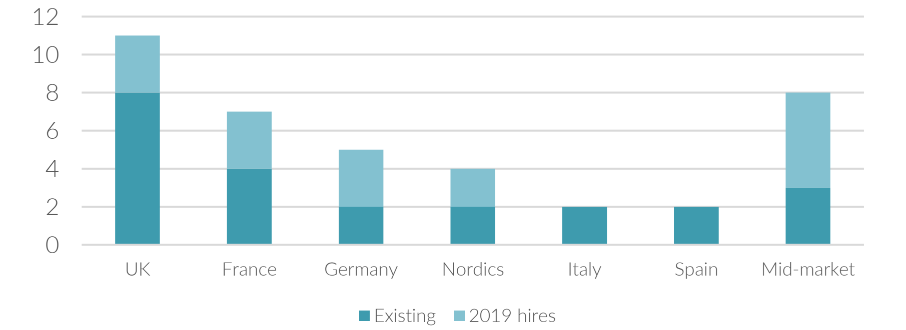
Benefits of being part of ICG family include market knowledge and experience, fee savings, access to investment opportunities, range of specialist skills, and economies of scale

ICG, the manager, is a specialist manager in private debt, credit and equity, with total assets under management (AUM) of ca.€43bn, spread across 21 investment strategies. Slide 12 of the 30 January 2020 *ICG Capital Market day presentation* shows that, over the past five years, ICG has raised $33.3bn of funds, making it the eighth-largest fundraiser globally for alternative assets (and raising more than 2x, say, KKR).

We see a number of advantages that ICGT gains from being part of ICG. These include:

- Market knowledge: ICG's breadth of products in the private markets gives it a unique insight into trends often before they are visible in public markets. This provides a major information competitive advantage for ICGT over peers. ICG's knowledge of the private company landscape also helps with informed decisions on manager selection for the fund portfolio.
- Access to investment opportunities: co-investments alongside ICG funds benefit from their due diligence. In addition, ICGT can piggy-back off ICG's large and growing deal origination team, with a localised presence across much of Europe. This feeds through to co-investment opportunities, which now account for 11% of the book. The chart below, again from the capital markets day presentation, shows that ICG has local expertise in a number of countries.

ICG – number of European origination staff by country



Source: ICG capital markets day presentation, 30 January 2020, Hardman & Co Research

- Senior ICG oversight at Investment Committee: this not only includes the former manager of the fund, but also a broad experience across sectors and markets – *Appendix 1* gives details of the members of the investment committee.
- A range of specialists can provide input into the management of the company, including finance, legal, compliance, treasury and investor relations.
- Fee savings: there is only one set of fees when ICGT invests in an ICG strategy, while an investor accessing them through a third party would be likely to incur both ICG and the third-party costs. In 2017, ICG indicated that pro-forma fee savings were 14%, and this is likely to have risen since then, as the proportion of the portfolio in ICG funds is rising.
- Operational economies of scale include factors like the re-negotiation of the liquidity line, where ICGT benefits from the overall, and much larger, ICG banking and treasury relationships.

We discuss the robust procedures to manage potential conflicts of interest in the section on corporate governance later in this report.

Balancing liquidity against cash drag

Balancing liquidity and returns is core management skill. Over-commitment looks reasonable in light of cash/borrowing capacity, likely realisations, and relative to peers.

Managing cash is crucial to any business, including PE, where investment drawdowns are spread over many years (we illustrate the life cycle of PE funds in *Appendix 2*). To hold cash in advance of such calls is a major drag on returns and, so, industry-wide, there is "over-commitment" in the expectation that cash from near-term realisations will be available to fund part of the new investments. Historically, ICGT was arguably over-conservative in its management of liquidity, with commitments uncovered by cash or existing credit lines making up just 15% of the portfolio in January 2016. This has now risen to ca.40%, much more in line with peers. To be clear, the risk is about future liquidity and investment drawdowns. As at end-April 2020, ICGT had £49m gross cash on its balance sheet, with an undrawn existing credit line facility of £115m. On our estimates, within two years, it with have capacity for a further over £100m of borrowing. Drawdowns have historically been closely correlated to realisations. Commitments uncovered by existing cash or current funding lines are just over two years' realisations. On our numbers, if geared to 30% – the maximum allowed under the current policy – this drops to around one year's realisations. In contrast, the drawdowns are likely to be spread over four to five years.

ICGT still has £14m cash on its balance sheet, so future drawdowns, not current exposure, are the issue. On our estimates, it has capacity within its gearing policy for further over £100m of borrowing, on top of existing £148m facility, against current undrawn commitments, which, in January, were £459m.

We believe that an element of over-commitment is a sensible policy, for a range of reasons. It ensures that an element of future business is known about upfront, generating better visibility of probable earnings. It is also a more sophisticated approach to cash management, reducing the drag on performance of holding excess cash. From the PE funds' perspective, it gives them more certainty of funding, allowing them to commit to deals and also, as noted above, to take cyclical opportunities because they have committed funding. The chart below shows the recent history of over-commitment. It can be seen that:

- Cash balances have been actively managed down to reduce cash drag and, at £49m, were11% of outstanding commitments at April 2020. The debt facility has been steadily increased, with the undrawn element at £115m, covering a further 25% of commitments at that date. The investment policy caps this at 30% NAV gearing, which, on our 2021E NAV, would see a further ca.£100m of borrowing capacity if the board and finance providers were willing to go that far.

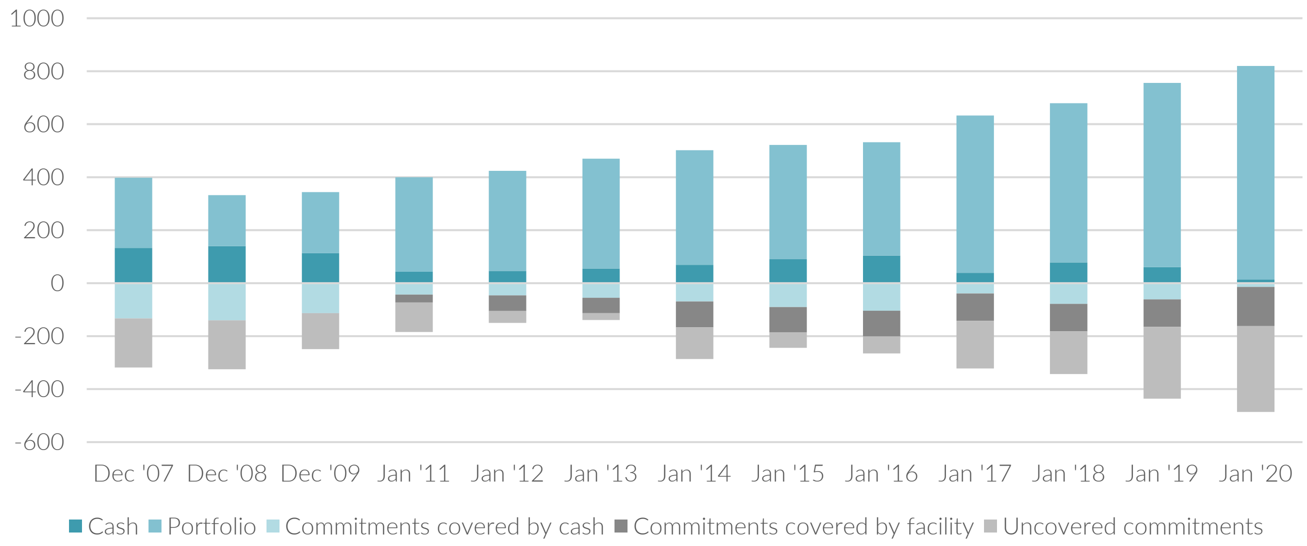
- Total undrawn commitments (the bars below the £0 line in the chart below) have been rising steadily. In January 2020, they were £459m, against £436m in January 2019, £343m in January 2018 and £322m in January 2017. The number can be somewhat volatile (April 2020 £451m), varying on the time when investment calls are made and the fundraising cycle.

- The uncovered over-commitment, excluding incentives, has been rising steadily (January 2017: £159m, January 2018: £139m, January 2019: £247m, January 2020: £297m, April 2020: £287m).

Equity bridges give some visibility on calls

ICGT has some visibility on some drawings, as underlying managers have increasingly used equity bridges (i.e. borrowed short term, rather than making unnecessarily frequent equity calls). With limited, if any, new underlying deals, raising funds to repay these bridges in 1H'20 is likely to be a material feature. There may have been a spike in March-May, with the underlying managers seeking to improve their own liquidity, but ICGT has visibility on this.

Balance sheet evolution since December 2007 (£m)



Note: Includes incentive that is not an investment commitment as such (e.g. 2020 total commitments £486m vs. commitment £459m)
Source: ICGT Report and Accounts, Hardman & Co Research

Commitments uncovered by existing cash or current funding lines currently less than two years' realisations. On our numbers, if fully geared, would be less than one year's realisations to cover drawdowns, which are likely to be spread over five years.

Putting the ICGT specific over-commitment position into perspective:

- Commitments uncovered by existing cash and funding lines are likely to be spread over five-plus years, and now represent 40% of the portfolio (38% NAV at end-April 2020).

- Current liquidity (cash £49m, facilities £115m) would cover more than a year's recent calls, and we expect the call rate to fall significantly post COVID-19.

- The element that is not covered by existing cash or bank facilities (April 2020: £287m) is around the realisations in FY'19 and FY'20 (combined £312m). If we re-gear to the maximum allowed, on our 2021 estimates, it would allow total debt to be £237m – an increase of £100m on the current funding line.

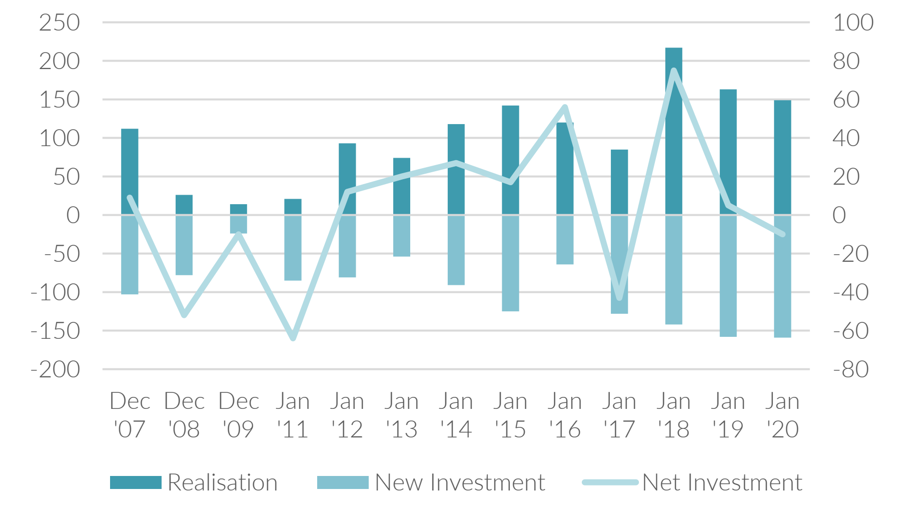
- The current 30% cap could, of course, be increased at the director's discretion and shareholder approval. We understand there is no appetite for permanent debt, and any facility drawings would be either prudential (to increase liquidity at times of stress), short-term working capital, or because the economic assessment was that new deals were too good to miss, and selling existing positions would be sub-optimal.

- Historical experience for ICGT is that up to 10% of original commitments are never drawn, as the PE manager is unable to source the deals it wants within the investment period/money held back for follow-ons. At April 2020, £91m of the £451m commitments were outside their investment period.

- The time when liquidity is most likely to come under pressure is if there is a market downturn. In such conditions, historical experience has been that drawdowns on cash slow markedly, which would relieve some of the incremental risk.

- Historically, drawdowns have been reasonably closely correlated to realisations (factor 0.74 for 2007 to 2020). As shown in the table below, in 2009, drawdowns were down 77% on the pre-crisis 2007 levels, while realisations were down 88%. There may be short-term fluctuations, but they are modest relative to this trend and ICGT's borrowing capacity. What it means is that, if there were an acceleration of drawdowns, this would most likely be when we were also seeing greater realisations providing the cash to fund further drawdowns. Given that most buyers of assets are now financial, this correlation should not be a surprise.

History of realisations and drawdowns since 2007



Source: ICGT Report and Accounts, Hardman & Co Research

Secondary market much better developed and provides liquidity option not available in past

The secondary market for PE funds has grown enormously in recent years, and now ca.$80bn p.a. is traded. As we detailed above, discounts to NAV, especially for good-quality assets, are relatively modest. It is unlikely that current pricing would be maintained in a downturn, when there could be more forced sellers, but the sale of some of the existing portfolio could be an option. We understand that, in 1Q'FY21 ICGT sold a position at a premium to the underlying valuation and, in April/May 2020, it was still receiving offers in the secondary market for its positions. Such high valuations, we believe, in part, reflect the high quality of its underlying managers.

Margin levels of over-commitment range from 13% to 50%. ICGT now in middle of pack.

Over-commitment is an industry-standard approach, and we give some peer information in the table below. Investors will note that ICGT is now in the middle of the pack in terms of measuring over-commitment to NAV.

Breakdown of components of over-commitment for ICGT and peers (£m)

Year to	ICGT Apr'20	BPET Dec'19	HVPE Mar'20 ($m)	PIP Nov'19	SLPE Sep'19
Total undrawn commitments (£m)	**451**	**147**	**1,765**	**486**	**450**
Cash	49	n/a	89	153	68
Undrawn credit line	115	47	600	177	100
Available funding	**164**	**47**	**689**	**330**	**168**
Over-commitment	**287**	**100**	**1076**	**156**	**282**
As % NAV	38%	33%	50%	10%	43%

Source: Company Report and Accounts, Hardman & Co Research

Liquid access to PE market

ICGT's model gives liquid access to broad spread of PE

By buying shares in a listed PE company, the investor benefits from the liquidity of exchange trading. As ICGT can choose to invest in any funds in the market, this means that its investors are getting liquid access to a diversified, but illiquid, underlying investment class.

Investment-neutral features

No Woodford and H2O funds read-across

No substantive Woodford read-across, and may create business opportunities, but sentiment harder to call

We believe there is no real read-across to ICGT from the situations at Woodford Asset Management and Natixis's H20 funds. ICGT's permanent capital structure makes it an ideal vehicle to exploit illiquid discounts in the underlying assets, its corporate governance appears robust, and its valuations seem realistic. ICGT's own shares are liquid. On the upside, there may be a business opportunity in closed-ended vehicles gaining assets from open-ended ones and companies wanting to stay private for longer. We believe the downside risk is a general one in terms of sentiment to illiquid investments.

No financial read-across

No financial read-across, as ICGT has permanent capital, conservative NAV, visibly independent board, no asset contagion, and minimal dependency on platform distribution

The key issues are:

- The permanent capital in closed-ended funds, £14m cash balances and limited potential debt gearing all mean that ICGT will not be – and, very importantly, will not be perceived to be – a forced seller of assets at distressed prices.
- We discussed, in the section above (see pages 27-29), the "real" NAV and noted the fact that ICGT had consistently delivered actual realisations well above the accounting book value of its investments. Accordingly, we do not believe that concern on whether the NAV approach is "real" or not reads across to ICGT.
- The board of ICGT (see *Appendix 1*) is experienced, well-balanced and independent from the manager.
- The other issues arising from these situations also do not appear material. In particular, we note that i) there is no asset pricing contagion risk, as ICGT's assets were not held by either Woodford or H20, and ii) platform distribution has not been a material source of business, and any changes in rules there will not impact ICGT.

No liquidity read-across

ICGT shares are liquid, and there are no single large shareholders, so there is no read-across should new constraints be introduced on public holdings based off their trading volumes

It is unclear what, if any, liquidity constraints may be applied to institutional investors' holdings of quoted shares. Anecdotally, we have heard that some managers (especially multi-asset managers) are facing restrictions from their compliance departments based off the liquidity of their public holdings. In the past, simply being quoted was enough to be counted as liquid but, post-Woodford, this is now open to question, and there may be additional regulatory requirements on the degree of liquidity, as is seen in the US.

We believe the market will focus on exchange-traded volumes, where we note that, for ICGT, the 2019 annual turnover was 35% of the current market capitalisation. This compares with 25% at PIP, 22% at HVPE, and 23% for both BPET and SLPE. We do not believe that ICGT is likely to be affected materially by any share price trading liquidity issue.

Turnover on London Stock Exchange (LSE)

£m	ICGT	BPET	HVPE	PIP	SLPE
Current market cap.	516	239	1,273	1,071	449
Value traded 2019	179	56	286	272	102
Value traded 2018	135	n/a	240	305	98
Value traded 2017	122	n/a	261	241	120

Source: LSE, Hardman and Co Research

IPOs only minor source of realisations, and Woodford contagion to that market again only limited, if any, impact on ICGT

Finally, as noted above, increasing compliance issues with regard to the liquidity of quoted holdings in the UK could present a constraint on the appetite for new issues, and thus PE managers' exit options. We note that IPOs have been only a minor part of ICGT's realisations, and we do not see this as a concern for ICGT.

Long-term opportunities

May see shift towards closed-ended vehicles

Once the dust has settled and any new regulations are in place, the benefits of being a long-established, closed-ended investment company are likely to be visible. We believe sentiment may lead to a preference for such structures and that ICGT is thus well positioned to benefit from any such move. The permanent capital of a vehicle such as ICGT is the right structure to exploit opportunities created by any illiquidity premium in the underlying companies, we believe.

More companies may stay private for longer, increasing PE advantages from fishing in this pool

Given the incremental costs and pressures from a quoted listing, anything that is likely to create additional impediments to listing is likely to see a continuation/extension of the current trend of companies staying private for longer. This may create further opportunities.

Potential downsides

However, investor appetite for illiquid, unquoted investments may lessen, and market sentiment may be hard to call

We see two downsides from the Woodford situation: firstly, investor appetite for illiquid investments may wane, and clearly all PE investment companies will be impacted by this; secondly, market sentiment can be hard to predict. The August 2007 stopping of withdrawals from two BNP Paribas hedge funds is seen by many as a significant event foretelling the lack of trust between financial institutions and the subsequent financial crisis.

Corporate governance/conflict management

Corporate governance (directors, independent oversights, conflict of interest management) appears robust

In terms of corporate governance, we note that ICGT has directors who have appropriate market knowledge, experience of a range of economic conditions, and clear independence from the manager. The Auditors Report (pages 64-69 of the 2020 Report and Accounts) shows how the auditors tested the process that the manager used to value its investments. We noted above that ICGT has the benefit of oversight from ICG. There are clear conflicts of interest policies in place to ensure that there is appropriate independence between the two.

Independent, experienced board

Directors have appropriate market knowledge, experience of a range of economic conditions, and clear independence from the manager

We detail the biographies of the board at the end of this report. We believe they demonstrate the key objectives investors should be looking for in a board, including:

- Relevant experience of ICGT's markets.
- Current experience in comparable companies, from which ICGT's performance and controls can be effectively compared.
- Experience of adverse market conditions.
- Independence from the fund manager. We understand, for example, that the move to ICGT was at least, in part, because the board had identified that it wanted the geographical diversification, focus portfolio and opportunity to reduce the cash drag, and the appointment of ICG was because it was the right vehicle to achieve these aims. It is not that ICG wanted to make the changes; rather the changes were board-led.

Audit review

The Auditors Report (pages 64-69 of the 2020 Report and Accounts) noted that the auditors tested the process that the manager used to value these investments

Investors will note, from the Auditors Report (pages 64-69 of the 2020 Report and Accounts), that the auditors tested the process that the manager used to value these investments. Their actions included i) checking a sample of the funds' and co-investments' most recent audited financial statements, ii) understanding the accounting policies of the underlying fund managers, iii) assessing the validity of any adjustments made by the manager, iv) checking the accuracy of a sample of prior-year valuations, based on estimated and unaudited reports, to their respective audited financial statements, to assess the historical accuracy of the underlying fund managers' estimates, v) independently confirming a sample of the valuations and percentage ownership with the underlying fund managers, and vi) recalculating the amounts due to executives of the former manager and manager under the incentive scheme accrual. We do not believe ICGT is unique in this regard, but knowing what process the external verification follows is a comfort.

Relationship with ICG

We noted above that ICG has oversight of ICGT, but there are clear conflicts of interest policies in place to ensure there is appropriate independence between the two

We outlined above the multiple advantages in having ICG as the manager. We believe it is very important, though, to understand any potential conflicts of interest:

- ICGT is not under pressure to invest in ICG's strategies, which typically have been heavily oversubscribed.
- Any decision to invest is subject to board approval to avoid any conflict of interest.
- There are clear, documented conflict of interest policies in place, and we understand that the Legal Counsel regularly attends the board meetings, with this being one area of its attention. Potential conflicts are brought to the board's attention, and signed off as necessary/appropriate.
- ICGT is invited to be a co-investor by ICG on normal commercial terms. ICGT confirms that it declines ICG propositions on the same basis as it does in third-party propositions.

Discount management

Principles

Discount can be helped by buybacks, but this can create liquidity issues, worsen expense ratios and send mixed messages re growth prospects. ICGT does not view buybacks alone as an effective discount control mechanism.

There are a number of tools that can be used to manage the discount. Many companies have policies that allow them to buy back shares if the discount is above a certain level for a specified time. Others use intermittent tender offers. We believe the key considerations are as follows.

- On the upside:
  - It creates a buyer for the shares. The immediate effect of a large tender offer may be more effective in removing potentially bulky sellers. If future offers are expected, it may also mean that such sellers do not continually drip shares into the market. Where there are likely to be a larger number of small-sized sellers, an ongoing programme may be more effective.
  - The liquidity provided by buy-backs may encourage buyers, as it provides them with an exit route, without disrupting the market price.
  - It may be perceived as putting a cap on the discount, which the market might then close itself.

- It is "fairer" to all shareholders. A seller may arise for specific reasons (such as death, divorce or liquidity calls) and, by keeping the discount tightly controlled, such sellers do not lose out to discount variability.

- Where the discount is large, the returns on the cash used in the buyback may be above the levels targeted in the investment company.

- On the downside:

  - It could create liquidity problems.

  - The capital can be better deployed in the fund.

  - By shrinking the business, it worsens the total expense ratio, and increases leverage where there is debt.

  - It sends a very mixed message, to investors especially, if the company later comes back to the market for further equity funding.

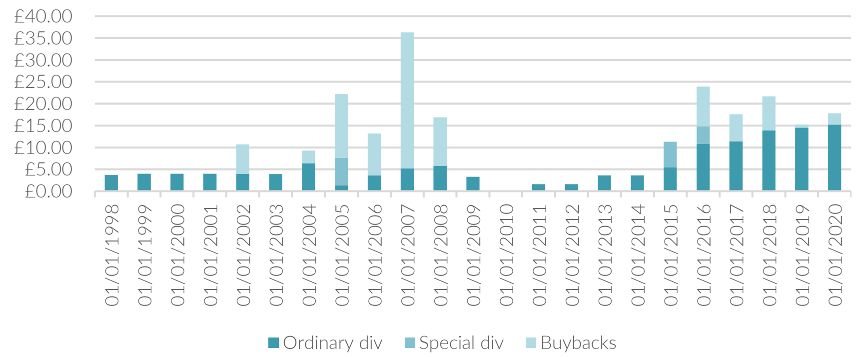
  - It can also send a very mixed message to staff. We note that, in a results call, JZ Capital Partners (JZCP), when announcing a buyback and debt repayment plans, very clearly outlined why it would not be shrinking the business by still originating assets, but placing them in a different vehicle. Given the scale of ICGT relative to ICG's other businesses, any shrinkage in assets is unlikely to affect, for example, staff morale.

  - An active buyback programme may reduce the likely return of capital by way of dividends, and thus benefit capital investors over income investors.

ICGT's approach

ICGT views buybacks as offering only very temporary discount management, but it will use them to enhance financial returns. Consequently, it has been only an intermittent buyer of its own shares (£26m over the past five years). When the discount to NAV ballooned in the financial crisis, it was much more active, buying £31m in 2007 alone. The absence of shareholders with significant stakes could also make the execution difficult. The overall volumes traded give better-than-peer annual liquidity (see page 33), but volumes can be variable. For example, January, May and August 2019 all saw the value traded on the LSE below £10m.

Returns of capital (£m) by dividends and buybacks, 1998-2020



Source: Alpha Terminal, Hardman & Co Research

KID disclosure

KID stress-test shows in-line downside risk. There are correlations between this scenario and large discounts, and we note that the methodology of its calculation is unwelcome by all in the market.

We totally support the market's antipathy towards KID disclosure and its value to understanding risk. Having said that, in our report, Investment companies: understanding the deepest discounts, published on 14 May 2019, we did identify a correlation between the KID stress-test scenario and companies with the biggest discounts. We recognise that this calculation is driven by historical movements but, given the correlation we identified, we believe that at least some investors do view it as indicative of prospective risk. On this basis, ICGT is in the middle of the pack of companies offering PE exposure.

KID disclosure of returns in different investment scenarios for ICGT and selected peers (%)

%	ICGT	BPET	HVPE	PIP	SLPE	HG Capital	OCI	NBPE
Stress scenario	-50	-53	-37	-38	-33	-54	-50	-48
Unfavourable scenario	-9	-6	1	-3	-12	-1	-6	-2
Moderate scenario	10	15	17	13	10	20	10	15
Favourable scenario	32	41	36	33	39	47	29	37
Risk rating	4	4	3	4	4	5	4	4
Recommended hold period (years)	5	5	5	5	5	5	5	5

Source: Latest KIDS on website – ICGT September 2019, BPET November 2019, HVPE October 2019, PIP December 2019, SLPE December 2018, HG Capital 11 November 2019, OCI December 2019, NBPE 10 May 2019 £ class A shares; Hardman and Co Research

Investment downsides

Costs

Summary

PE is high-cost business and, given business mix, ICGT broadly in line with peers. There are no management fees on over half the portfolio. Performance fees are only paid on realisation and, over 10 years, have equated to under 7% of gains.

There is a market sensitivity to costs, especially as some of the nominal performance fees can be large. However, investors should note that the investment generates market-beating returns. PE requires significant resources to assess deals, and to invest in management and improving performance once positions have been taken. Significant cost is also incurred in aligning manager and shareholder interests in a way that is not possible in public markets. Due diligence, investment and manager alignment are all necessary to deliver to the value-adding proposition.

Management fee in line

Relative to PE fund investors, ICGT has an above-average cost base, although, relative to direct investors, it is broadly in line. The management fee (headline 1.4%, effective 1.2% in FY'20) is broadly in line, and there are no management fees at the ICGT level for its primary or secondary investments managed by ICG or Graphite (around a quarter of the portfolio at end-April 2020). Where direct investments have been made (a further quarter of investments), there is only the ICGT manager fee and no underlying manager charges, meaning that, in total, nearly half the portfolio is on a single, rather than double, fee structure.

ICGT performance fees equated to under 7% of gains over 10 years

Performance fees, again, are broadly in line with those of peers, recognising the mix (KID carry cost 2.8%, vs., say, 2.6% at SLPE and 3.8% at HG Capital). They are variable and, in cash terms, are paid out only on realisation, and they are not triggered by unrealised accounting value changes. ICGT advises that the accrual for incentive costs has equated to under 7% of gains over 10 years. There appears to be a slightly above-PE fund investor average in other ongoing costs, which we believe is primarily mix-driven.

ICGT relative to peers

The table below shows the KID disclosure of costs for ICGT and its peers. This is not an ideal starting point, as the structure of the business can impact on disclosure (we have excluded HVPE, as its legal structure means it is not like-for-like). The conclusion that we draw is that ICGT is broadly in line with peers, allowing for the business mix.

KID disclosure of costs for ICGT and selected peers

%	ICGT	BPET	PIP	SLPE	HG Capital	OCI	NBPE
Transaction costs	0.12	0.09	0.04	0.03	0.2	0.14	0.0
Other ongoing costs	3.14	2.83	4.19	5.50	1.9	3.49	3.07
Carried interest/performance fees	2.82	0.74	0.0	0	3.8	3.33	0.58
Impact on return in year	6.08	3.66	4.23	5.53	5.8	6.95	3.65

Source: Latest KIDS on website – ICGT September 2019, BPET November 2019, PIP December 2019, SLPE December 2018 (SLPE January presentation indicates a carried interest cost of 2.6%), HG Capital 11 November 2019, OCI December 2019, NBPE 10 May 2019 £ class A shares; Hardman and Co Research

Nearly half of ICGT's portfolio does not have "double fee structure"

Management fee

The headline management fee that ICGT charges is 1.4% of the fair value of assets, plus 0.5% of outstanding commitments, but, in FY'20, this fell to an effective rate of 1.2% of average net assets, as not all the funds incur management costs.

- There are no management fees at the ICGT level for its primary or secondary investments managed by ICG or Graphite (23.6% of the portfolio at end-January 2020). The ICG level of fees for running its strategies is similar.
- Additionally, where direct investments have been made (25.2% of investments end-January), there are only the ICGT manager fees and no underlying manager charges. In combination with the investments, where there is no ICGT level fee, over half of the total investments are subject to only one manager fee.

KID "other operating costs"

As noted in the table on page 38, other operating costs under the KID definition come to 3.14%. On the average balance sheet, this would equate to over £20m in costs, while the statutory income statement shows only half this level (£8m of investment manager charges and £3m in other costs). To reconcile the two, we note:

- ICGT management fees detailed above (1.2% of average NAV in FY'20, £9.6m), which are in both the KID and statutory accounts.
- The bank facility cost (FY'20: £2m, ca.0.2%), administration expenses (FY'20: £0.8m, 0.1%) and directors' fees (a minimal 0.03%) are also in both the statutory income statement and the KID other ongoing costs.
- Management fees for the fund portfolio incurred by third parties (ex Graphite), which we estimate at ca.1.7% p.a., are included in KID costs. The nature of costs in the PE managers is somewhat different, with typically a higher cost on undrawn elements of commitments (as this is when the manager is doing the resource-intensive due diligence and investment work) and a lower rate once the investments have been made (when there is investment in the ongoing relationship). For statutory accounts purposes, these costs are captured in the NAV consolidation (i.e. through lower investment gains in the income statement).

Incentive costs triggered by realisation, not unrealised accounting changes. Over 10 years on co-investment scheme equated to under 7% gains. With co-investments, managers have to put in cash upfront. Incentivisation is core part of PE model and helps deliver market-beating returns post costs.

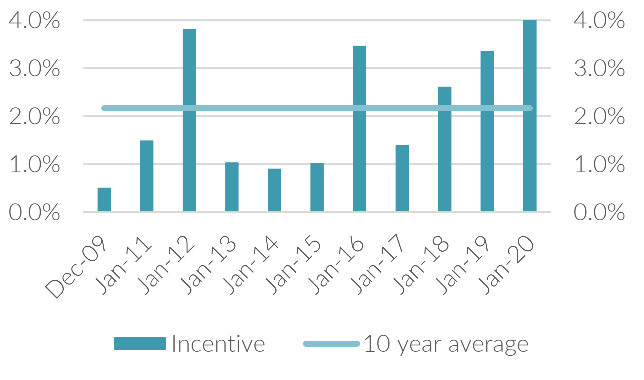
Incentive costs

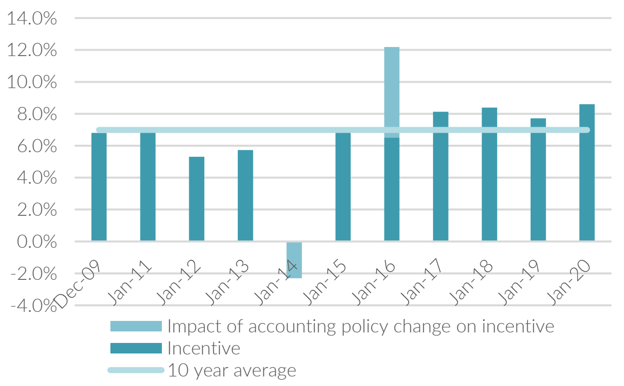
The biggest single element of cost is performance-related incentive costs. The key points to note here are i) they are triggered only when investments are sold, ii) performance fees are not driven by the portfolio size, which would include unrealised gains – the PE managers' returns are aligned directly to shareholder returns in this regard, and iii) the net cash payouts on the co-investment scheme over the past 10 years has been under 2% of proceeds, and the average accrual rate over this period equates to under 7% of the portfolio gain (see chart below).

These numbers vary with the level of returns (in high-return years, the payout ratio increases, as the performance fee calculation is 10% above an 8% hurdle rate).

Appendix 3 gives more details on performance fees for ICGT. The detail is important (for example, PIP's performance fee hurdle represents an NAV of 3,454p, which makes it unlikely that there will be distributions in the near future – its March 2020 NAV was 2,795p), but our overall view is that ICGT is in line with its peers in how its own performance fees are structured.

Co-investment scheme incentive net payments as % of cash proceeds (LHS) & incentive accrual as % of portfolio gain (RHS)





Source: ICGT, Hardman & Co Research

In statutory accounts, performance-related reward for funds in which ICGT invests are captured by a lower asset valuation and do not show in income statement directly.

The presentation of incentive costs required by the accounting rules is not particularly helpful to understanding the underlying business dynamics. In this regard, we highlight:

- Co-investor scheme: with co-investments, the managers have to invest 0.5% of the total investment to further realign their interest with shareholders. This scheme covers all of the third-party funds (except ICG or Graphite funds), directly held co-investments in companies and secondaries. In order to avoid the manager staff becoming employees of the trust, the incentives are legally paid out through a subsidiary, into which 50% of new eligible investments are placed (this level is to ensure that all incentive payments can be distributed from the subsidiary, and it was raised from 20% in 2016). The structure has been established for many years and is, we understand, in line with industry practices. The investments included in the subsidiaries are included at fair value within the company's reported investments. There is an annual accrual against the expected cost of the incentive scheme, which is reflected in a lower unrealised gain (and so NAV). The actual cash cost is reflected in lower proceeds in the statutory cashflow (unhelpfully, this only shows a net movement, anyway, but there is a detailed note on cash payments in Note 9 of the 2020 Report and Accounts).

- Fund investments: incentive payments accruing at the fund level (or indeed at the company level for line management) are reflected in a lower valuation of assets directly. Again, incentive payments will show in the income statement through lower gains.

- KID disclosure: the KID disclosure is intended to capture carried interests/incentive payments, but it is clear that the implementation of the KID rules has been open to some interpretation. For example, the rule states that these costs should be captured at the fund level and one statutory level of subsidiaries. HarbourVest shows a very low level of carry costs, because the fund (HVPE) invests in HarbourVest strategies, which, in turn, invest in other PE funds. The incentives in the latter are not included in HVPE's KID disclosure, while they would be for ICGT. Additionally, we note that SLPE captures carried interest in other operating costs.

Perceived sensitivity to economic cycle turn

Summary

Sentiment that PE is cyclical, but evidence shows continued outperformance, even in downturns. ICGT's largest annual falls in NAV were 3% in early 1990s' recession and 14% in financial crisis. Only one year of declines in both scenarios.

We believe a further investor concern is how ICGT will perform in the event of an economic downturn, driven by COVID-19 or any other factor. We note 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 financial crisis, 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 1Q'FY21 reinforces the point that PE and ICGT outperform overall markets in a downturn.

Economic cycle affects operational performance of underlying companies, and ICGT affected by greater leverage and reduced valuation ratings. On upside, cov-lite reduces risk of default being triggered (especially at larger end of market), underlying company EBITDA grew through financial crisis, and re-investment opportunities arise.

A downturn has several potential impacts: i) a weaker trading outlook for the underlying companies – as shown below, the academic research concludes that PE-backed companies continue to outperform, aided by greater certainty in finance; ii) ICGT's realisation rate is likely to fall (it fell by seven-eighths 2009 on 2007), as will investment drawdowns; iii) there is a higher risk of default where companies have more leverage – management notes that the majority of underlying companies de-levered in FY'20 on a like-for-like basis, and the portfolio average was stable (top 30 at 4.1x EBITDA December 2019), reflecting mix and weightings impacts – also, higher leverage is partially offset by the increased prevalence of cov-lite documentation, which reduces the probability of default; iv) the valuation rating applied to underlying companies is likely to fall with market declines, reducing the NAV – as we noted above, ICGT's ratings are below peer PE companies, and historical falls have been modest; and v) there are likely to be more re-investment opportunities at lower prices – on the downside, sentiment is likely to be adverse, widening the discount.

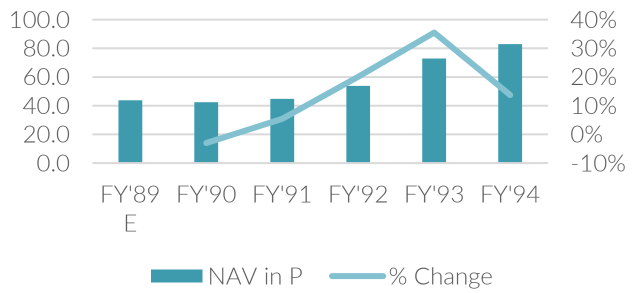
NAV performance during shock periods

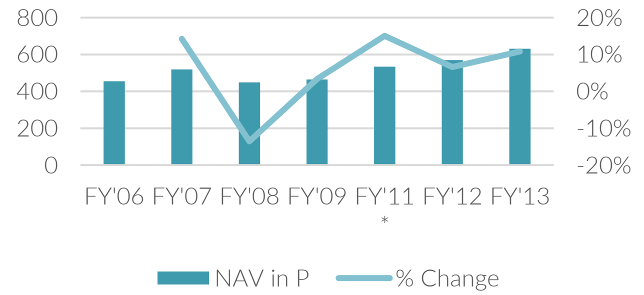
Annual NAV only fell one year in each of i) early 1990s, by 3%, ii) financial crisis, by 14%. The peak-to-trough falls, including intra-year numbers, were somewhat higher, but still market-beating.

The charts below detail the performance of ICGT though the 1990s' recession and in the financial crisis. We note:

- In the early 1990s' recession, ICGT's annual reported NAV was broadly stable, before rising sharply in the following years.
- In the financial crisis, 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 financial crisis (RHS)





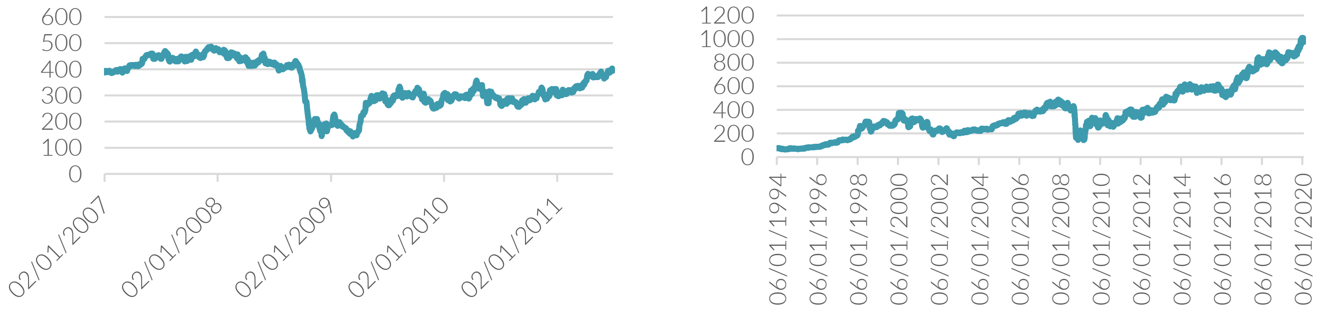
Source: ICGT Report and Accounts (1989 estimated following re-statement of 1990 accounts), Hardman & Co Research

Share price fall more exaggerated, with sharp increase in discount

Share price

While the fall in annual NAV was a very manageable 14% in the financial crisis, there was a more marked share price reaction. As the left-hand chart below shows, the share price in 2007 rose by nearly a quarter, before falling 70% from 477p in January 2008 to a low of 144p in December 2008. It subsequently recovered, but it took nearly three years to get back to its pre-crisis level. The right-hand chart shows that, over the long term, there have been several periods of weakness, followed by strength, with a strong long-term rising trend. We expect temporary noise but that the value will be driven by the NAV accretion, for which there is a long-term record of delivery.

Share price (p) January 2007 to December 2011 (LHS) and from 1994 to January 2020 (RHS)



Source: Alpha Terminal, Hardman & Co Research

The chart above shows the discount to NAV over the financial crisis to January 2020 (latest consistent date for NAVs). The discount to NAV widened from just under 10% to around 60%, even with the falling NAV. We believe this reflected concern about the survival of the company/sector, and investors will note the sharp reduction in discount subsequently seen.

Book better positioned for downturn

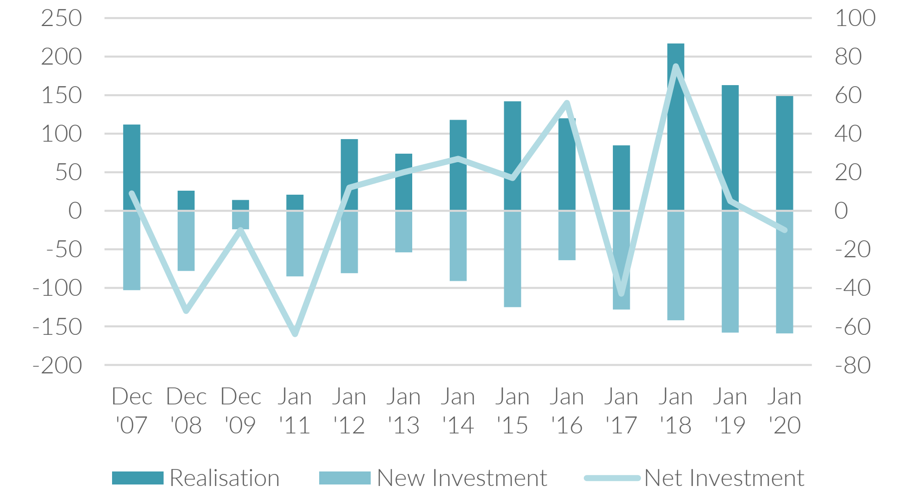
We note, since the financial crisis i) lower over-commitment (uncovered commitments were 51% of the NAV at the end of 2008 – against the current 38%), ii) increased diversification of the book (especially geographically), iii) stable leverage, at 4.1x EBITDA, but lower equity gearing, iv) a relatively 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.

Both realisation and new investment fell sharply

Realisation and new investment activity

The chart below shows the history of realisations and new investments since before the financial crisis. As can be seen, both activities shrunk markedly in the depth of the crisis, with new investment especially affected. When considering the likely drawdown of committed lines in the section above, such a trend is an important consideration.

Realisations and investments (£m) since FY'07



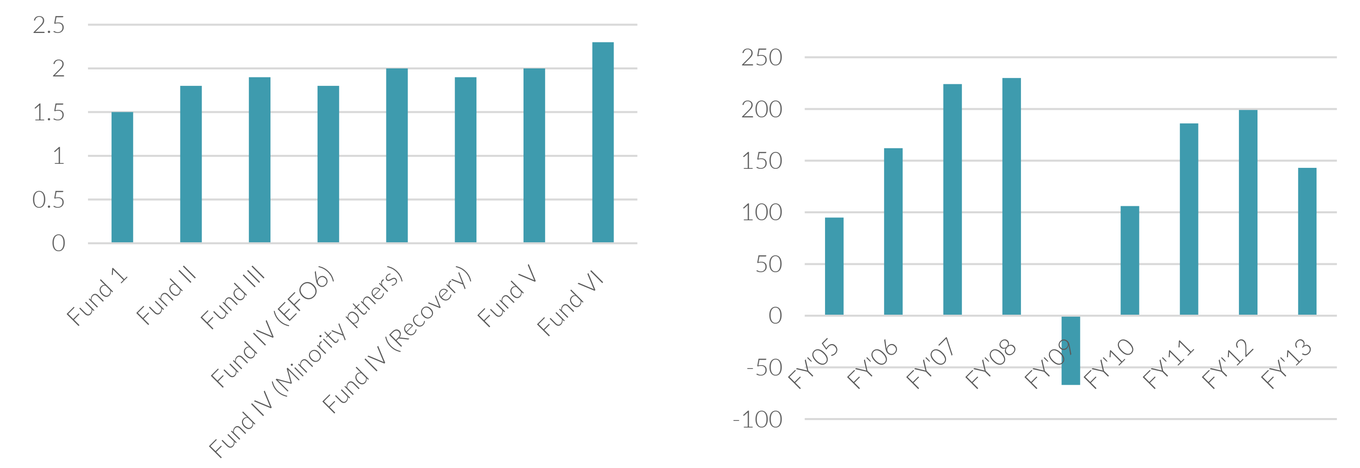
Source: ICGT Report and Accounts, Hardman & Co Research

ICG performance

Over long term, ICG funds proved resilient

Given the increasing weighting to ICG strategies, we also think it appropriate to consider a measure of how ICG itself performed over this period. The charts below show the money multiple (i.e. proceeds versus costs) for a range of the core European strategies. The funds had a range of launch dates from well before the crisis through to 2016. Fundamentally, there has been a remarkable stability in returns (1.5x to 2x) across this huge range of dates. The right-hand chart shows the profits of ICG, which saw a temporary dip in 2009, and the sharp recovery thereafter. There was no long-term impact on its business.

Money multiple returns by the various ICG European funds (x, LHS) and ICG reported pre-tax profit (£m, RHS)



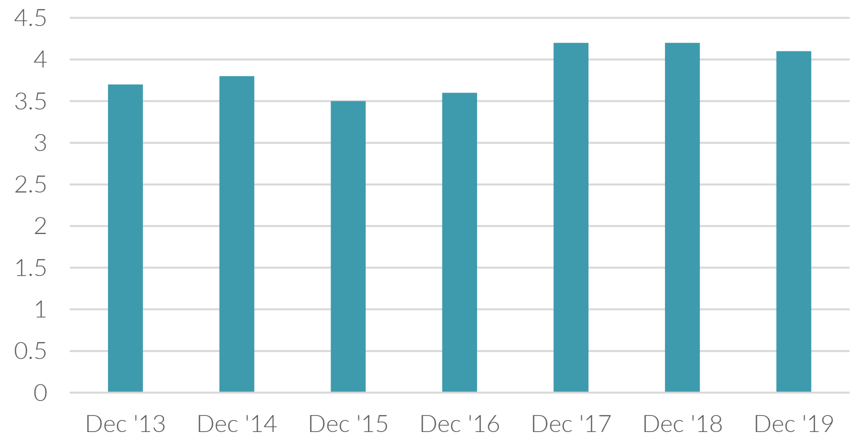
Source: ICG capital markets day presentation, 30 January 2020 (LHS), ICG Report and Accounts (RHS), Hardman & Co Research

Leverage stable since end of 2017. Many companies reduced gearing, with some mix effects keeping average at 4.1x EBITDA (December 2019)

Gearing

We note that ICGT's top 30 companies' debt to EBITDA has been broadly stable, at 4.1x (December 2019), since 2017 (with some underlying company deleveraging offset by mix effects). This compares with the latest disclosures of 4.8x at SLPE and 4.7x at HVPE, while, at PIP, the ratios are 5.9x for large/mega buyouts (26% of book) and 4.1xfor small/mid-sized buyouts (40% of book). *Prima facie*, it does not appear that ICGT has been taking incremental risk going into any potential downturn. As noted above, 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

Impact on underlying business's operational performance

We note ICGT's comment, in its 2009 Report and Accounts, that, for its top 30 holdings, "Despite the hostile economic environment the EBITDA of these companies increased materially in 2009". Outperformance against the market is a common theme from several PE investors.

Academic research shows PE-backed companies outperform in recession. Any drag from incremental financial gearing more than compensated for by improved management and certainty in finance.

This view is supported by academic research. In a piece called Private equity firms show resilience in a downturn, Stanford scholar Shai Bernstein noted, in September 2017, "the decline in investment for private equity-backed firms was significantly smaller than the comparable firms. Specifically, we found that in the years leading to the crisis, both the private equity-backed firms and the control group followed a very similar trend in terms of investments. But this trend diverged in 2008, at the onset of the financial crisis, when the decline in investment among private equity-backed firms was much smaller. Moreover, we found that private equity-backed firms increased their assets more rapidly relative to the control group, and also enhanced their market share during the crisis."

Reasons given include long-term horizon and "dry powder" capital built ahead of downturn

The reasons given were "I think there were a couple of reasons that allowed private equity-backed companies to gain better access to financing resources, and, as a consequence, invest more and grow more rapidly relative to their peers. First, the longer time horizon of the private equity firms' funds (average fund life is 10 years) allowed the private equity investors to support their portfolio companies during the crisis. Moreover, the private equity firms themselves still had capital available to deploy – capital they had raised before the crisis. Consistent with this notion, we indeed found that private equity firms with more "dry powder," or non-deployed capital, at the onset of the crisis were more able to alleviate financing constraints of their portfolio companies during the crisis."

Academics from Leeds/Nottingham universities reached similar conclusion, with PE-backed companies showing stronger performance than quoted companies

Similarly, in a 2011 piece called Private Equity Portfolio Company Performance Through The Recession, academics from Leeds and Nottingham universities noted "Private equity-backed buyouts show a stronger economic performance in the period before and during the recent recession than a matched sample of private companies and listed companies. Private equity-backed buyouts show a higher return on assets, sufficient ability to cover the interest payments on their debt and higher gross margin in the recession period than before it. Growth in value added and profit is stronger than for listed companies during the recession period. Growth in turnover and employment remains positive for the PE-backed buyout sample. ..... The results imply almost 14% higher productivity and 5% higher return on assets (ROA) during the recession than matched private companies and listed companies."

It is, of course, impossible to predict what would happen to the operational performance in a downturn from here. As noted above, PE businesses can be run for the long term, allowing greater preparation for, and appropriate responses to, short-term economic conditions.

Impact on valuation metrices

Ratings likely to be lower

We note that, in 2008, ICGT's buyout portfolio was valued on a multiple of 7.9 (rising to 8.9 in 2009, after it had released some provisions taken in 2008). We would not expect a reduction to this level, given the much-increased diversity of the book, its geographical and sector mix, and the proven track record of performance of its companies through a recession. 2008 included a provision that was subsequently found to be unnecessary.

Upside opportunities

Re-investment opportunities likely to be material

ICGT is a long-term investor. The dislocation associated with an economic downturn is likely, over time, to see more opportunities for new investments at more attractive pricing multiples.

Unquoted assets/asset illiquidity

Absence of market price should not be concern, given ICGT's long track record of conservatism in accounting and the fact we believe "real" NAV may well be above accounting book NAV

We believe investors give greater reliance to the NAV of a business where its value is determined by liquid, market prices than one whose value relies on unobservable inputs or modelling assumptions. This is precisely why the accountants developed their valuation hierarchy, and we note that 99.8% of ICGT's assets are accounted for on a level 3 basis (as at 31 January 2020), i.e. the accountants do not rely on liquid market prices or observable inputs. As we identified above, ICGT has a long track record, which indicates that its NAV is conservative and that the "real" NAV is above the level reported. We therefore are relatively relaxed that there is no market price, and we classify such concerns as being driven by sentiment, rather than by fundamentals.

We also note the concern that most of ICGT's assets may be considered illiquid. We again conclude that the issue is primarily a sentiment one, noting the following key factors in drawing this conclusion:

Investors can take comfort from i) permanent structure of closed-ended vehicle, ii) appropriate gearing and liquidity, and conservative commitment policy, iii) much deeper secondary market, where prices for ICGT's types of asset are generally close to par

- Liquidity is only a real issue if a holder is put in the position of being forced to sell the asset at a distressed price and time. Otherwise, it can simply hold out until a better price can be achieved. The key question, therefore, is whether ICGT is ever going to be in such a position. Investors can take comfort from:
  - The permanent structure of the closed-ended vehicle means there are no cash calls from investors that must be met by liquidating assets.
  - The appropriate gearing and liquidity in the vehicle leave considerable capacity to finance further drawdowns. The over-commitment policy is reasonable, bearing in mind what has happened to drawdowns and realisations in downturns, existing cash, likely realisations in the near future and borrowing capacity.
- Since the financial crisis, the secondary market has been transformed, with trades in 2019 of $88bn, ca.100x the total size of ICGT's portfolio. As we noted above, the average discount to NAV in the secondary market is small, but even this is driven significantly by mix, with the secondary market having a greater percentage of lower-yielding, older assets than the ICGT portfolio as a whole. In current conditions, it may be expected that the loss on disposal for most of the portfolio would be modest, if any. Clearly, in a downturn, the discount is likely to widen, but this needs to factor in the discount at which ICGT itself is already trading.

Other issues

Inherent subjectivity in valuations

Valuation conservative, we believe, but we note rising rating, third-party involvement and delay in valuation. Latter two could see valuation uplifts, as well as reductions.

While we believe there is factual support that ICGT's valuation approach is conservative, there will always be subjectivity in valuing unquoted and potentially illiquid investments. We note that i) the EBITDA multiple has been rising, and is now at its highest level for a number of years, ii) there is a reliance on third parties for valuations – while these are independently audited (and so checked) and the fund manager's conservatism is a key consideration when ICGT invests, this creates an extra risk, and iii) the fund valuations are typically a couple of months out of date, as it takes this amount of time for the managers to collate all the information (for example, the NAV announced in April for the year-end in January was based primarily off December valuations), while the April NAV (announced June) is primarily March. This may lead to over- or under-statement relative to the current market rating for all fund of fund PE investment companies. It is worth remembering that there is limited motivation for managers to Inflate valuations, as their fees are not based off an accounting value. Realised gains are likely to be more helpful to a manager going into a fund raise than accounting values.

History of discount

Discount has been feature for long time – with examples where such a discount has been reversed

Overcoming the sentiment that "it's always been at a discount and always will be" can be a significant challenge. ICGT, and many of its peers, have traded at a discount to NAV for a substantial period. However, i) it is not justified by fundamentals, and ii) other companies that have traded at a discount for a sustained period have moved to premiums, as we identified on page 9 of our report, Investment Companies, Understanding the deepest discounts, published on 14 May 2019. The downside risk of the discount widening significantly, even in a recession, would appear modest.

Currency-induced short-term volatility

There can be short-term noise around currency movements

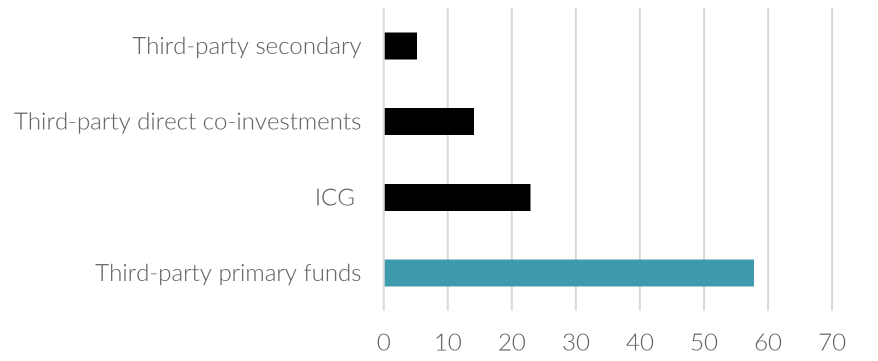
ICGT does not typically incur the real cash costs of hedging its positions when, over the long term, the effects of exchange rate movements are relatively modest. It would also be incredibly complicated working out the exact exposure to be hedged. The underlying company exposure may be totally different from the currency in which the PE fund reports, or ICGT's sterling reporting. However, in the short term, there can be NAV noise when rates move sharply. The statutory disclosure on page 86 of the 2020 Report and Accounts indicates that a 25% change in the value of sterling to the Euro would impact the NAV by ca.£52m (7%, with a similar effect should the sterling/US dollar rate move).

Portfolio

Current portfolio

ICGT's latest portfolio is shown in the chart below.

Portfolio breakdown



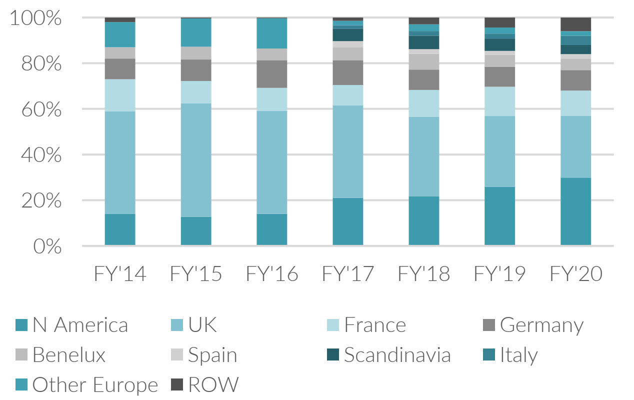
Source: ICGT results presentation; high-conviction is shaded black; Hardman & Co Research

Evolution

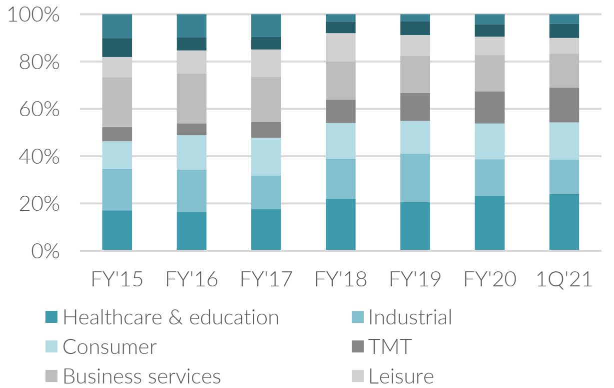
The charts below show how the portfolio has evolved in the recent past. The key messages that we take are:

- A rapid growth in North American exposure (primarily US) since FY'15 (from 13% to 30%), which has been broadly offset by a fall in the UK exposure (from 50% to 27%).
- Just over a third of exposure is in the rest of Europe, with France and Germany both accounting for ca.10% each.
- Growth in more defensive sectors, such as healthcare, and a reduction in business services. TMT has also grown, from 6% to 14%.

Geographical mix of portfolio by country (% LHS)



Portfolio sector exposure (% RHS)



Source: ICGT Report and Accounts and factsheets, Hardman & Co Research

HARDMAN&CO.

Comparison with peers

The table below gives a summary of ICGT's portfolio and its closest peers.

Portfolio summary

	ICGT (Apr'20)	Apax (Mar'20)	HVPE (Apr'20)	PIP (Feb'20)	SLPE (Mar'20)
Sector (%)					
Healthcare	17	20	13	19	17
Industrial	15	n/d	11	10	17
Consumer*	16	15	16	15	35
TMT	15	38	32	31	15
Business Services	14	24	12	n/d	n/d
Leisure	7	n/d	n/d	n/d	n/d
Education	7	n/d	n/d	n/d	n/d
Financials	6	n/d	11	12	9
Others	4	3	In bus. serv.	13	7
Stage					
Large buyout	47	n/d	)	26	
Mid-market buyout	40	n/d	) 56	)	
Small buyout	10	n/d	)	) 39	
Growth	0	n/d	33	20	
Special situations	0	n/d	n/d	10	
Venture/other	3	n/d	11	5	
Vintage					
2018 and later	42	27	n/d	22	33
2017	19	30	n/d	14	17
2016	15	20	n/d	16	17
2015	7	13	n/d	16	11
2014	8	)	n/d	5	)
2013	5	)	n/d	3	)
2012	1	)	n/d	3	)
2011	0	) 10	n/d	4	) 22
2010	1	)	n/d	1	)
2009	1	)	n/d	2	)
2008	0	)	n/d	6	)
2007	1	)	n/d	) 8	)
2006 and earlier	0	)	n/d	) 0	)
Type					
Primary	69 E	n/d	47	30	82
Secondary	5	n/d	32	36	18
Co-investment direct	26E	29 (24 o/w debt)	21	34	1
Geography					
USA/North America	30	56	57	54	12
Europe	64	30	22	29	86
o/w UK	27	7	n/d	n/d	17
Asia and EM	6	5	16	10	
Global/RoW	0	9	5	7	2
Largest exposures					
Single underlying company	3.9	6	3.4	2.8	7.7
Top 5 companies	15	25	10	7	12
Single manager	23	71	n/d	5.6	n/d
Top 5 managers	n/d	71	8 in range 1%-3.3% portfolio	18.9	n/d

**includes consumer services and goods; Source: Factsheets and websites, Hardman & Co Research*

Valuation

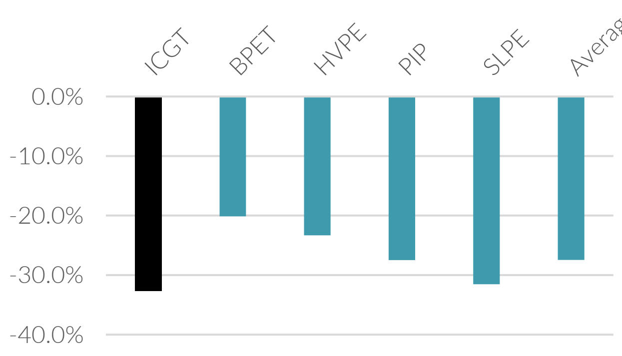
Most fund of fund peers at similar discounts, despite differing risk/reward profiles. Given factors outlined throughout this report, ICGT's discount, in both absolute and relative terms, appears anomalous.

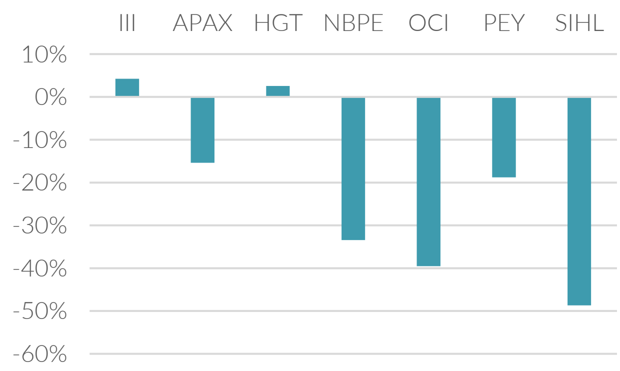
One of the more noticeable features of the discounts for fund of fund PE investment companies is the remarkable consistency between most of the companies investing in funds and the huge variability in funds investing directly. *Prima facie*, it appears that the market has a broad concern with the whole 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.

The charts below show the premium/discount ratings of a broader range of peers – among the direct investors, HG Capital is on a premium, but it is a fund very focused on IT, with the opportunities and risks this presents. 3i also trades at a premium, but its business model is very different, including its asset management business, as well as the balance sheet business.

There is an obvious anomaly in the relative valuation with fund of fund investors shown below. BPET's valuation is at a premium to peers (i.e. a lower discount to NAV), despite delivering slower NAV growth (see chart on next page). We noted, on page 28 of this report, that BPET's implied EV/EBITDA rating is significantly lower than that of its peers, and this may give investors confidence in its NAV. BPET also advises that, in its view, the high dividend yield (4%), continuity of management and the relatively tight register of supportive shareholders (largest shareholder 27%) differentiate it from its competitors. ICGT is committed to a progressive dividend policy to reward its investors in the short term, and it currently yields ca.3%.

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

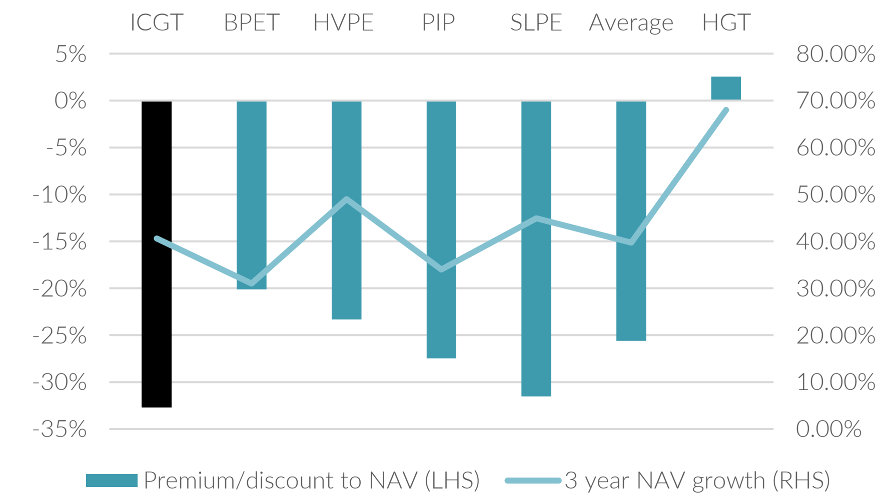




Source: Company websites, factsheets and presentations, Hardman & Co Research; priced at 2 July 2020

The chart below compares the discount with the NAV total return performance. As noted above, over the three-year view of the current emphasis, ICGT has achieved the best NAV total return of its peers. It is therefore rather anomalous that it should trade among the worst discount level.

Current share price disc. to latest NAV against 3-year NAV total return



Source: Company websites, factsheets and presentations, Hardman & Co Research, priced at 2 July 2020

Gordon Growth Model (GGM)

GGM model would indicate ICGT should trade on multiple of book

As an investment company, it is a standard practice to consider the discount/premium to NAV. However, if ICGT were a trading business, we would consider the Gordon Growth Model (GGM), which focuses on sustainable returns, cost of equity and growth. A business that delivers returns above cost of capital should trade at a premium to book value, as it is adding value for shareholders. A growing company delivering returns above cost of capital would be at a larger multiple than a company that were not growing.

There is always, then, a debate about what are sustainable returns, cost of equity and growth. In the current low long-term interest rate environment, we would argue that a track record of 191% NAV growth over 10 years is indicative of a business generating returns safely above cost of capital, and thus one that should trade well above book.

What could lead to a re-rating

Key triggers for re-rating include continued performance, better market understanding of risks and rewards in model, and more comfort that impact on NAV of any economic downside scenario will not be as adverse as feared

We noted earlier in this report that ICGT and, indeed, its peers have traded at discounts to NAV for a considerable time. While investors have been rewarded by market-beating strong NAV growth driving the share price, it is also worth noting that there are a number of potential triggers that could deliver incremental returns by closing the 33% discount. These include:

- Market concerns about illiquid/unquoted stocks moderating as the Woodford effect becomes more historical. We do not believe this issue will go away quickly – not least as there may be regulatory changes to open-ended fund holdings of illiquid assets. However, we do expect a steady moderation in its intensity from here.
- We stated that the discount appears anomalous. In this case, one key consideration will be communication. We note that ICGT is active in its investor engagement.
- Delivery of strong performance, in line with historical experience, through an economic downturn.

Financials

We detail below the latest results and our forecasts. Some of our key assumptions include i) investment income at 1.5% of the opening portfolio, and ii) investment returns in 2021 – we assume a 2% realised investment return and unrealised losses of £25m in the year. We assume a performance fee accrual at 7.5% of gains in 2021. While there was a 4% fall in 1Q NAV, we assume this will be recovered by January 2021, leaving the NAV flat year-on-year.

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	3,967		3,967
Overseas interest and dividends	2,874		2,874	7,784		7,784	7,934		7,934
Deposit interest & other	381		381	381		381	381		381
Realised gains on investments		14,686	14,686		15,568	15,568		15,869	15,869
Unrealised gains on investments		70,974	70,974		0	0		95,213	95,213
FX gains and losses		208	208		1,000	1,000			0
Investment manager fees	-2,393	-7,179	-9,572	-2,173	-6,518	-8,691	-2,358	-7,073	-9,431
Other expenses	-1,738	-1,494	-3,232	-1,825	-1,494	-3,319	-1,934	-1,494	-3,428
Return before finance costs and taxation	**3,310**	**77,195**	**80,505**	**8,060**	**8,556**	**16,616**	**7,990**	**102,515**	**110,505**
Interest payable and 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	8,556	16,116	7,990	102,515	110,505
Taxation	-538	538	0	-1,285	1,285	0	-1,358	1,358	0
Return on ord. activities after taxation	2,772	77,733	80,505	6,274	9,841	16,116	6,632	103,873	110,505

Source: ICGT Report and Accounts, Hardman & Co Research

Accounting can distort real business messages on, for example, treatment of income vs. capital returns or what is a realised gain

Investors should note that the accounting is not always helpful to understanding the business. Some issues to consider include:

- Whether a gain may be returned as income or capital disposal may be driven by factors such as tax, not the underlying structure of the deal. Volatility in income lines may be driven by this, rather than the business.
- The split between realised and unrealised gains is unhelpful. If ICGT invested 100 in a fund of 100 and received proceeds of 150, one could expect this to be a realised gain. However, if ICGT made a follow-up investment (the gain that would be returned later) of 60, a return of 150 on the initial investment would trigger a realised loss of 10. ICGT's reported realised loss of £31m in 2018 was driven by this accounting treatment, not because the sold investments had fallen in value.

Balance sheet (£000)

Financial year, @ 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	571,711	609,637
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	793,445	879,528
Current assets								
Cash and cash equivalents	90,137	103,831	38,522	78,389	60,626	14,470	17,235	4,067
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	812,869	886,164
Current liabilities								
Creditors	6,459	634	354	963	386	483	500	500
Gross debt							20,000	0
Net assets	506,864	521,342	612,733	664,323	730,860	793,545	792,369	885,664
NAV per share (p)	**695.16**	**730.93**	**871.05**	**959.14**	**1,056.51**	**1,152.12**	**1,152.23**	**1,287.92**

Source: ICGT Report and Accounts, Hardman & Co Research

In terms of cashflow, we have assumed £45m will be deployed in FY'21, with limited activity in 2Q and 3Q. This assumes that there is a relatively rapid economic recovery in 2H'20, rather than a sustained recession, and may be compared with the ca.£80m that would be deployed if total commitments were deployed evenly over five to six years. We have broadly matched proceeds with deployments, leaving the group with a marginal net cash balance. We have assumed that there will be some drawings on the credit line for prudence purposes, but the gross debt will be more than covered by gross cash, leaving a net cash-positive position for the year.

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	60,000	90,000
Purchase of portfolio investments	-102,185	-56,213	-102,621	-99,601	-101,790	-95,417	-45,000	-50,000
Net cashflows to subsidiary 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	6,070
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	-9,431
Other expenses	-983	-1,269	-1,380	-1,456	-1,749	-1,227	-1,250	-1,250
Net cash inflow/(outflow) from operating activities	38,454	38,836	-49,655	62,067	-2,368	-25,907	2,116	26,602
Cashflows from financing 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							20,000	-20,000
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	-16,505	-17,193
Net cash inflow from financing activities	-12,953	-25,889	-18,647	-23,026	-16,333	-20,457	-350	-39,769
Net increase in cash and cash equivalents	25,501	12,947	-68,302	39,041	-18,701	-46,364	1,766	-13,167
Opening cash and cash equivalents	65,390	90,137	103,831	38,522	78,389	60,626	14,470	17,235
FX effects	-754	747	2,993	826	938	208	1,000	0
Closing cash and cash equivalents	90,137	103,831	38,522	78,389	60,626	14,470	17,235	4,067

Source: ICGT Report and Accounts, Hardman & Co Research

Sale of investments in cashflow statement not total proceeds, as some netted off in net cashflow to subsidiaries

Investors should also note that the accounting required for the cashflow is not helpful to understanding the business. In particular, 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. The easiest way to do this is by having a separate company to do so. The unhelpful accounting rules have required the net flow of cash to the subsidiaries to be shown with proceeds from sales partially offsetting new investments. The line sale of portfolio assets thus does not reflect the proceeds that ICGT more helpfully discloses in its cash conversion tables.

Appendix 1: company matters

Company history

ICG Enterprise (ICGT) listed on the LSE in 1981, raising £23m. It has since grown assets to £794m (May'20), generating significant value for shareholders through multiple cycles.

- 1981: F&C Enterprise listed on the LSE, raising £10m of capital for investment in F&C venture-backed companies.
- 1983: Further £11m of capital raised.
- 1984: First investment made into a third-party fund.
- 1985: Company begins to focus on UK management buyouts.
- 1991: Last of the 1981 and 1983 warrants exercised, bringing total capital raised to £23m.
- 2001: Company renamed Graphite Enterprise; F&C Ventures investment team spun out from F&C to become Graphite Capital.
- 2004: Emma Osborne joins Graphite Capital to provide dedicated focus on third-party investments.
- 2007: Shareholders approve move to fund of funds strategy. First US fund investment made. Third-party managed investments become majority of portfolio for first time.
- 2016: Graphite Enterprise investment team moves to ICG; company renamed ICG Enterprise Trust.
- 2016: First Asia Pacific fund investment made in ICG Asia Pacific Subordinated Debt and Equity Fund.

Board of Directors

Jane Tufnell –Chair

Jane Tufnell started her career in 1986, joining County NatWest, where she jointly ran the NatWest Pension Fund's exposure to UK smaller companies. In 1994, she co-founded Ruffer Investment Management Ltd, where she worked for over 20 years to build the business to an AUM of £20bn, before leaving in 2014. Jane is Chair of Odyssean Investment Trust and a non-executive director of JPM Claverhouse Trust, Schroder UK Public Private Trust plc, and Record plc, the currency management specialist. Jane has succeeded Jeremy Tigue as Chair of the company (he stepped down from the board at the AGM in June 2020). Jane brings extensive financial services and fund management experience to the board. She is a seasoned public company board member and chair, and has significant experience of all aspects of investment company management, governance and regulation.

Alastair Bruce – Audit Committee Chairman

Alastair was appointed to the board in 2018, and became Chairman of the Audit Committee in 2019. Alastair was Managing Partner of Pantheon Ventures between 2006 and 2013, having joined the firm in 1996. During his tenure at Pantheon Ventures, Alastair was involved in all aspects of the firm's business, particularly the management of Pantheon International Participations PLC, the expansion of Pantheon Ventures' global platform and the creation of a co-investment business. Alastair brings over 25 years of PE, investment management and financial experience to the board.

Gerhard Fusenig – Non-Executive Director

Gerhard was appointed to the board in 2019. Over the last 25 years, Gerhard has held a number of senior management roles, including the position of co-COO of Asset Management and CEO of Core Investments at Credit Suisse, as well as Global Head of Fund Services at UBS. As an independent, non-executive director, Gerhard is a board member of Credit Suisse Insurance Linked Strategies Ltd and of SolvencyAnalytics AG. Former directorships include Standard Life Aberdeen PLC and Aberdeen Asset Management PLC.

Sandra Pajarola – Non-Executive Director

Sandra Pajarola was appointed to the board in March 2013. Sandra has over 30 years of experience in PE and financial services. She was a Partner at Partners Group, having served on its global investment committee for 12 years, and was key in building up and managing its primary funds' investment team and portfolio. In her role, she also held various board seats on direct investments, as well as advisory board seats for funds. In 2013, she changed her role to Operating Partner for Partners Group. In addition, Sandra is an angel investor in PE across Europe. Sandra brings extensive PE investing experience, having executed a broadly similar strategy during her time at Partners Group. As the head of the team there, Sandra built relationships with many PE managers in Europe, and she has a broad perspective on the PE industry.

Lucinda Riches – Non-Executive Director

Lucinda Riches was appointed to the board in July 2011, and became Senior Independent Director in June 2018. She worked at UBS and its predecessor firms for 21 years until 2007, where she was a managing director, global head of Equity Capital Markets and a member of the board of the investment bank. She is a non-executive director of The British Standards Institution, Ashtead Group plc, CRH plc and Greencoat UK Wind plc. She was awarded a CBE in 2017 for her services to financial services, British industry and to charity. Lucinda brings significant capital markets experience, having advised public companies on strategy, fundraising and investor relations for many years. She also brings extensive experience as a public company non-executive director across a variety of businesses, including two FTSE 100 companies.

Key investment managers

We have outlined above how ICG delivers its strategy through process, infrastructure and a broad market knowledge and database. It is not dependent on star managers but rather on the whole investment process. We believe this is important to delivering long-term sustained returns. Noting that caveat, the key ICGT managers are:

Oliver Gardey – Head of Private Equity Fund Investments

Oliver joined the team in the autumn of 2019. Oliver has over 20 years' experience in the PE industry. For the past decade, he has been a partner at Pomona Capital, where he was a member of the global investment committee. He was previously a partner at Adams Street and Rothschild/Five Arrows Capital. On the Investment Committee, Oliver has overall responsibility for the development and execution of the company's investment strategy. He has extensive experience across the PE market, as a direct, secondary and fund investor.

Colm Walsh – Managing Director

Colm joined the team in 2010. He focuses on primary funds, co-investments and secondary transactions, and, over the last three years, has taken primary responsibility for building up the US investment programme. He has led a number of recent commitments to, and co-investments alongside, US managers. He previously worked at Terra Firma Capital Partners in its finance and structuring team. Prior to this, he worked as a manager in the financial services audit group at Deloitte, where his clients included a number of PE firms. Colm is a graduate of Economics from the London School of Economics. He is both a Chartered Accountant and a CFA Charterholder. On the Investment Committee, Colm brings experience of both fund and direct investments in Europe and the US to the Investment Committee. He has a broad range of relationships with both managers and investors in PE, which help provide insights on new opportunities.

Fiona Bell – Principal

Fiona joined the team in 2009, and has recently taken on responsibility for European market coverage. She has worked on a wide range of primary funds, secondaries and co-investments. Fiona started her career at KPMG in the media and PE groups, before joining J.P. Morgan Cazenove, where she worked as a corporate broker and mergers & acquisitions advisor in the industrials sector. Fiona qualified as a Chartered Accountant and holds a degree in Experimental Psychology from Oxford University.

Liza Lee Marchal – Principal

Liza joined the team in 2019. She was previously with GIC Private Equity for 11 years, first in the London office and, most recently, in the Singapore office. During her time at GIC, Liza worked in both the Direct and Fund Investments teams. Prior to this, she worked in the PE division of Henderson Global Investors, and started her career in the corporate finance group at PricewaterhouseCoopers. Liza holds a degree in Biochemistry from Oxford University and an MBA from INSEAD.

ICG oversight and support

Emma Osborne - Senior Adviser, Member of Investment Committee

Emma was the lead portfolio manager for the company for over 15 years, moving to a senior adviser role at the end of 2019. Emma joined Graphite Capital as head of fund investments in 2004, and led the team move from Graphite Capital to ICG in early 2016. Prior to Graphite Capital, Emma held various roles in PE, including Merrill Lynch Investment Managers (PE funds and co-investments), Morgan Grenfell Private Equity (direct equity), Royal Bank of Scotland (mezzanine) and Coopers & Lybrand (PE advisory). Emma holds a first-class degree in Economics and Politics from Bristol University, and qualified as a Chartered Accountant. As lead portfolio manager of the company, Emma had overall responsibility for the development and execution of the company's investment strategy for over 15 years. She has 25 years' experience in the PE market, as both a direct investor across the capital structure and as a fund investor.

Benoît Durteste - Chief Investment Officer and Chief Executive Officer, ICG plc, Member of Investment Committee

Benoît is Chief Investment Officer and Chief Executive Officer of ICG. He is also a member of the Board of ICG Plc and the Chairman of the BVCA Alternative Lending Working Group. Benoît joined ICG in 2002 from Swiss Re, where he was a Managing Director in the Structured Finance division in London. Prior to Swiss Re, Benoît worked in the Leveraged Finance division of BNP Paribas, and in GE Capital's telecom and media PE team in London. Benoît is a graduate of the École Supérieure de Commerce de Paris. On the Investment Committee, Benoît has over 25 years of direct investment experience. As Chairman of other ICG investment committees covering private debt, mezzanine and strategic equity in Europe, the US and Asia, Benoît brings a broad perspective on the PE landscape, and on relative value and risk. Through his long tenure in the market, he also has a broad range of manager relationships.

Andrew Hawkins – Head of Private Equity Solutions, ICG plc, Member of Investment Committee

Andrew joined ICG in 2014, and is a Senior Managing Director and Head of Private Equity Solutions, the division of ICG that includes both Strategic Equity and ICG Enterprise Trust. Andrew is based in New York, and also sits on the investment committee for ICG Strategic Equity. He has 26 years' experience in PE, and was formerly Partner and Managing Partner at Palamon Capital Partners and Vision Capital Partners, respectively. Most recently, Andrew was CEO of NewGlobe Capital Partners, a business he founded in 2012. He has an LLB in law from Bristol University and is a Chartered Accountant. On the Investment Committee, Andrew brings over 25 years of direct investment experience to the Investment Committee. This long tenure in both the European and US markets gives him strong insights, as well as a broad range of manager relationships. As the head of Strategic Equity, Andrew is currently active in the PE secondaries market, which brings a different perspective on relative value.

Others

There is additional ICG support from:

- Andrew Lewis, General Counsel and Company Secretary
- Ian Stanlake, Head of Finance & Investor Relations
- Tom Burkinshaw, Financial Controller – ICG Enterprise Trust
- Tom Perrins, Manager, Fund Performance Reporting

Appendix 2: glossary

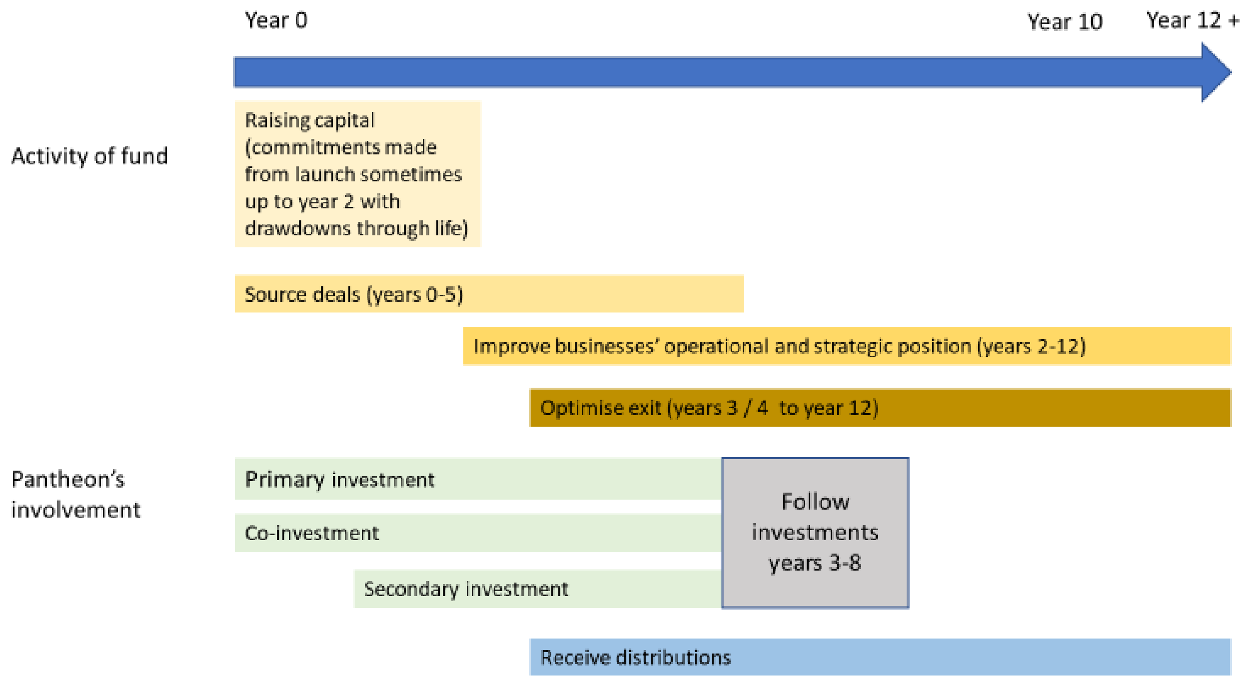
ICGT provides a detailed glossary of terms and alternative measures on pages 96-98 of its 2020 Report and Accounts. We provide a shortened summary below.

Glossary	
Alternative Performance Measures ("APMs")	A term defined by the European Securities and Markets Authority as "financial measures of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework". APMs are used in the report and accounts if considered by the board and the manager to be the most relevant basis for shareholders in assessing the overall performance of the company, and for comparing the performance of the company with its peers, taking into account industry practice.
Buyout funds	Funds that acquire controlling interests in companies with a view towards later selling those companies or taking them public.
Carried interest	This is equivalent to a performance fee. It is the portion of realised investment gains payable to the GP as a profit share.
Co-investment	Direct shareholding in a company by invitation, alongside a PE fund.
Co-investment incentive scheme accrual	This represents the estimated value of interests in the co-investment incentive scheme operated by the company.
Commitment	The amount of capital that each limited partner (LP) agrees to contribute to the fund when and as called by the GP.
Debt multiple	Ratio of net debt to EBITDA.
Dry powder	Funds committed and available for investment that are not yet invested.
Full realisations	These are exit events (e.g. trade sale, sale by public offering, or sale to a financial buyer), following which the residual exposure to an underlying company is zero or immaterial.
Funds in investment period	Funds that are able to make new platform investments under the terms of their fund agreements – usually up to five years after the initial commitment.
General partner ("GP")	The entity managing a PE fund that has been established as a limited partnership – also commonly referred to as the PE fund manager.
High-conviction portfolio	Refers to co-investments, ICG managed funds and secondary fund investments.
Investment period	Period, typically five years, during which the GP is permitted to make new investments.
J-Curve	Refers to the tendency of PE funds to experience capital outflows and negative returns in early years, and cashflow distributions and investment gains in later years, as portfolio companies mature and are exited.
Limited partner ("LP")	Institutions or individuals who commit capital to a PE fund established as a limited partnership. LPs are generally protected from legal actions and any losses beyond their original commitment to the fund. A Limited Partnership includes one or more general partners, who have responsibility for managing the business of the partnership and have unlimited liability, and one or more limited partners, who do not participate in the operation of the partnership and whose liability is ordinarily capped at their capital and loan contribution to the partnership. In typical fund structures, the general partner receives a priority profit share ahead of distributions to limited partners.
Net asset value per share total return	This is the change in the company's net asset value (NAV) per share, assuming that dividends are re-invested at the end of the quarter in which the dividend was paid.
Overcommitment	This refers to where PE fund investors make commitments exceeding the amount of cash immediately available for investment. When determining the appropriate level of overcommitment, careful consideration needs to be given to the rate at which commitments might be drawn down, and the rate at which realisations will generate cash from the existing portfolio to fund new investment.
Primaries	Commitments made to PE funds at the time such funds are formed.
Private equity ("PE")	Privately negotiated investments typically made in non-public companies.
Secondary investments	Purchase of existing PE funds and commitments from an investor seeking liquidity in such funds or companies.
Undrawn/ outstanding commitments	Undrawn portion of total commitment.
Uplift on exit	Increase in value received upon exit realisation of an investment relative to its carrying value prior to realisation.
Valuation multiple	Multiple of earnings (typically EBITDA or net income) or revenue applied in valuing a business enterprise.
capital	Investment in early and development-stage companies, often used to finance technological product and market development.
Vintage	The year in which a PE fund makes its first investment.

Source: ICGT Report and Accounts, Hardman and Co Research

Appendix 3: lifecycle of PE fund

Theoretical timeline for a PE fund



Source: Hardman & Co Research

PE firms, known in industry parlance as GPs, initially raise committed money from institutional investors such as ICGT, pension funds, insurance companies and family offices. Initially, the capital is only a commitment and is only drawn down (or "called") as it is required, and this process starts before the fund is actually launched. GPs also invest their own money into the funds they manage. This is to ensure they have "skin in the game", i.e. their interests are aligned with that of their LPs.

Can take many years to deploy funds

The monies are put into a fund structured as an LP and managed by the GP, and the capital is used to invest in companies, for either a minority or majority equity stake. It can take many years after the funding line has been committed before it is fully drawn down as, typically, PE funds are investing through the five- to six-year investment period. Indeed, after companies have been acquired, it is very common for there to be further capital injections (say to fund acquisitions or investments). Such follow-on investments can be substantial and for much of the life of the fund. The line to which ICGT has initially committed may not actually be needed for several years, and is likely to be substantially drawn in years two to five, but it may not be fully drawn in this period.

As noted earlier, while PE funds have a notional life span of 10 years, most have one- or two-year extensions in the documentation, and many have an actual life stretching out as far as 15 years. Money is returned to investors as investments are realised, and this may start as early as year three, although more substantial returns are not usually made for several years. By the end of the life of the fund, they will have had to return all the investors' original money, plus any additional returns made. It is the institutional investors in the funds – known as LPs – who first receive any returns generated by a fund. It is only when these returns pass a certain point, known as the "hurdle rate", that the GPs receive any performance-related/carried interest.

Appendix 4: ICG strategies

ICG strategies as at January 2020

Strategy	Description	Latest fund size	Gross return target (% p.a.)	Value (£m)	Undrawn (£m)
ICG Europe (1989)	Subordinated debt and equity in mid-market companies with experienced management teams who have a proven strategy, typically in non-cyclical industries. The team works with businesses to develop flexible capital solutions tailored to achieve a company's goals, and will usually be the sole institutional investor.	€4.5bn	15-20	121	35
ICG Strategic Equity (2016)	Acquisitions of significant positions in funds and/or portfolios of companies through fund restructurings, recapitalisations and whole fund liquidity solutions. The team works with incumbent PE managers to provide liquidity options for investors in mature fund vehicles.	$2.4bn	>20	24	65
ICG Asia Pacific (2016)	Subordinated debt and equity in mid-market companies in developed Asia Pacific markets. The team focuses on providing flexible capital solutions to leveraged buyouts, corporate investments and restructuring of capital structures (excluding those of distressed companies).	$0.7bn	15-20	30	3
ICG US Mezzanine (2018)	Subordinated debt, second-lien debt, first-lien debt and equity co investments in mid-market companies, both PE-sponsored and sponsorless.	$1.4bn	13-17 (mainly income)	1	6
ICG Europe mid-Market	Following the same successful strategy as ICG Europe, targeting smaller mid-market transactions.	€1.0bn	15-20	0	17

Source: ICGT Report and Accounts, Hardman and Co Research

Appendix 5: costs for ICGT and peers

Reported management fee

	Comment
ICGT	The headline management fee of 1.4% of portfolio value, plus 0.5% of undrawn commitments to funds in investment period excludes funds managed by both ICG and Graphite Capital (the former manager) in both cases (24% of the portfolio). Including direct co-investments (on which there is no fee at the underlying manager level), approximately half the portfolio has only a single fee. There are no fees on cash and no separate fund administration fees. The effective annualised management fee as a proportion of average NAV for FY'20 was 1.2%, although using the AIC definition, the ongoing charges were 1.4%.
BPET	Throughout the year, the manager was entitled to a basic management fee payable quarterly in arrears of 0.9% p.a. of the relevant assets of the company (2018: 0.9%). For the purposes of the basic management fees, the "relevant" assets are the net assets, plus the amount of any long-term borrowings undertaken for the purpose of investment, but excluding the value of any investment in any fund that is managed by the manager or an associate of the manager.
HVPE	HarbourVest does not directly charge HVPE management fees or performance fees, other than with respect to parallel investments. However, as an investor in the HarbourVest funds, HVPE is charged the same management fees and is subject to the same performance allocations as other investors in such HarbourVest funds. HVPE pays management fees to HarbourVest with respect to the funds in which it invests, and also for the secondary co-investment in Conversus made alongside the HarbourVest funds. The total of all management fees in the six months to 31 July 2019 was equivalent to 0.83% of average NAV.
PIP	PIP is entitled to a monthly management fee at an annual rate of i) 1.5% on the value of PIP's investment assets up to £150m and ii) 1% on the value of such assets in excess of £150m. In addition, PIP is entitled to a monthly commitment fee of 0.5% p.a. on the aggregate amount committed (but unpaid) in respect of investments, up to a maximum amount equal to the total value of PIP's investment assets. The value of investments in, and outstanding commitments to, investment funds managed or advised by the Pantheon Group are excluded in calculating the monthly management fee and the commitment fee.
SLPE	SLPE pays SL Capital Partners a quarterly fee, equal to 0.95% p.a. of the company's NAV at the end of the relevant quarter. No fee is payable on any investments in any investment trust, collective investment scheme or any other company or fund managed, operated or advised by the manager, or any other subsidiary of Standard Life Aberdeen plc where there is an entitlement to a fee on that investment. In the January 2020 presentation, SLPE reported on a KID disclosure basis: direct costs of 0.25% of NAV, management fee of 1.44% and other expenses (partnership expenses of the underlying funds) of 0.39%.

Source: ICGT Report and Accounts, Hardman and Co Research

Performance fee

	Comment
ICGT	Under the co-investment scheme in which the manager invests 0.5% in every investment, there is an incentive of 10%, provided the investment exceeds an 8% hurdle (with catch-up). There is no incentive on ICG or Graphite Capital funds (ca. a quarter of the April 2020 portfolio). Incentives only pay out on cash proceeds from realised returns. Net cash payouts over the last 10 financial years have been ca.2% of proceeds, with an average incentive accrual over the last 10 financial years of <7% of the portfolio gain. Incentives provide long-term alignment of interests.
BPET	"The Manager is also entitled to an annual performance fee if the internal rate of return per Ordinary Share over the relevant performance period (based on the net asset values per Ordinary Share at the beginning and end of that period, before accruing for any performance fee, and the dividends paid and other distributions made per Ordinary Share during that period) exceeds 8 per cent per annum (the "performance hurdle"). The performance fee is also subject to a "high water mark" such that the aggregate of the net asset value per Ordinary Share at the end of the relevant performance period, before accruing for any performance fee, and the dividends paid and other distributions made per Ordinary Share since 31 December 2018 (the end of the last period in respect of which a performance fee was paid) must exceed the audited diluted net asset value of 386.29p per Ordinary Share as at 31 December 2018 (the net asset value per Ordinary Share (fully diluted) at the end of the last period in respect of which a performance fee was paid, after accruing for that performance fee). If the above conditions are satisfied in respect of a performance period, the performance fee will be equal to 7.5 per cent of the annualised increase in the net asset value per Ordinary Share (calculated using the internal rate of return per Ordinary Share) over that period multiplied by the time-weighted average number of Ordinary Shares in issue (excluding any shares held in treasury) during that period, provided that such performance fee will be reduced to such amount as may be necessary to ensure that (i) both the performance hurdle and the high water mark would still be satisfied if calculated based on the net asset value per Ordinary Share at the end of that period after accruing for the performance fee and (ii) the aggregate basic management and performance fees do not exceed 2 per cent per annum of the Company's net asset value. The performance period is the 36 month period ending on 31 December in the year in respect of which the performance fee may be payable."
HVPE	Performance fees for HVPE are charged at the HarbourVest fund level and get reflected in the NAV. Performance fees on secondary and direct co-investments accounted for 0.56% of average NAV in the six months to 31 July 2019.
PIP	The performance fee payable in respect of each calculation period is 5% of the amount by which the NAV at the end of such period exceeds 110% of the applicable "high-water mark", i.e. the NAV at the end of the previous calculation period in respect of which a performance fee was payable, compounded annually at 10% for each subsequent completed calculation period up to the start of the calculation period for which the fee is being calculated. For the calculation year ended 31 May 2019, the notional performance fee hurdle is an NAV per share of 3,454.52p, making performance fees unlikely for the foreseeable future.
SLPE	SLPE, in its January 2020 presentation, reported KID carried interest costs (i.e. performance fees) of 2.57% of NAV, in line with ICGT KID disclosure. There is no performance fee at the SLPE level.

Source: ICGT Report and Accounts, Hardman and Co Research

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