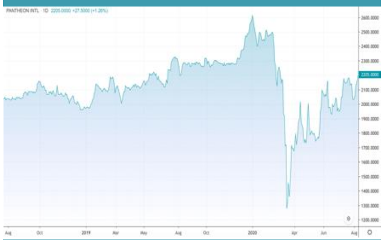
HARDMAN & CO.

Closed-Ended Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**PIN**
Price (p)	**2,215**
12m High (p)	2,620
12m Low (p)	1,274
Shares (m)	54.089
Mkt Cap (£m)	1,198
NAV p/sh (p, Jun)	2,865.3
Disc. to NAV	23%
Market	Premium equity closed-ended inv. funds

Description

The investment objective of Pantheon International Plc (PIP) is to maximise capital growth by investing in a diversified portfolio of private equity (PE) funds and directly in private companies.

Company information

Chairman	Sir Laurie Magnus
Aud. Cte. Chr.	David Melvin
Sen. Ind. Dir.	Susannah Nicklin
Inv. Mgr.	Pantheon
Manager	Helen Steers
Contact	Vicki Bradley
	+44 20 3356 1800
	www.piplc.com

Key shareholders, 31 May 2020

Quilter	9.40%
USS	8.15%
Esperides SA Sicav-SIF	5.75%
East Riding of Yorkshire CI	4.70%
APG Asset Mgt.	4.44%
Investec Wealth	4.37%
Private Syndicate Pty	3.76%
Brewin Dolphin	3.45%

Diary

Mid-Aug	Jul NAV

Analyst

Mark Thomas 020 7194 7622
mt@hardmanandco.com

PANTHEON INTERNATIONAL PLC

2020 results: positioned for sustained growth

The key results message was the outlook, where PIP is "generally well placed to withstand and, in certain cases, to benefit during a period of significant economic and market turmoil". Much of the information was pre-published in the monthly factsheet. The key statistics were i) 11.6% average annual NAV growth since inception, ii) +4.0% NAV per share growth in the year, despite valuations being based off March 2020 market lows, and iii) £228m distributions vs. £118m calls => net cashflow £110m. PIP has £121m of net available cash and £310m of undrawn borrowing facilities. A 23% discount to NAV appears anomalous with performance.

- **Results summary:** Valuation gains and income were impacted by COVID-19 but still saw a positive effect (+3.9% NAV against average since 2013 of 10.1%). Expenses (-1.5%) were consistent with 2013-19 averages. The period saw a positive forex effect (1.6%), delivering overall NAV growth of 4.0%.
- **Outlook:** PIP's outlook confidence is driven by i) The Manager's more than 40 years' PE experience, ii) a conservative stance, including limiting debt, taken in advance, iii) a bias to IT/healthcare in newer investments, iv) permanent capital and strong liquidity, v) a collegial culture, vi) a track record of outperformance.
- **Valuation:** PIP shares trade at a 23% discount to NAV, despite their long-term outperformance. We believe the "real" NAV is likely to be above the book value on the accounting date, and the NAV was at March, when markets were at recent lows. PIP re-invests returns for superior capital growth and pays no dividend.
- **Risks:** We note i) sentiment to the economic cycle (NAV rose every year in the 1990s' recession, and in FY'20), ii) adverse sentiment to illiquid and unquoted investments (PIP has permanent capital and proven exit uplifts), iii) sentiment to the sustained discount could be an issue. Short term, there can be forex volatility.
- **Investment summary:** PIP is in an attractive market, can pick the best part of that market and has competitive operational advantages. Its manager selection and portfolio structuring have added value. This has delivered 11.6% annual NAV growth since inception. Corporate governance is strong, and the NAV is conservatively valued. Investors get liquid access to the whole PE market. There are risks around the cycle, and illiquid and unquoted underlying assets, but these, against the historical returns, make the current discount an anomaly.

Financial summary and valuation

Year-end May (£000)	2017	2018	2019	2020	2021E	2022E
Gains on investments	201,198	149,778	204,473	72,264	174,996	200,249
Investment income	17,436	15,504	13,222	11,198	11,218	17,115
Inv. Manager's fee	-12,659	-15,020	-16,584	-17,674	-18,500	-19,500
Other expenses	-1,783	-3,270	-573	-2,449	-1,500	-1,500
Int. payable/similar exps.	-1,791	-1,950	-2,386	-2,223	-2,223	-2,223
Return before taxation	204,790	131,947	194,918	62,294	163,990	194,141
NAV per share (p)	2,190	2,415	2,771	2,883	3,183	3,539
S/P discount to NAV	1%	-8%	-20%	-23%	-30%	-37%
Investments	1,224	1,275	1,450	1,496	1,712	1,893
Equity issued in year	-26	-3,546	-500	0	0	0

Source: Hardman & Co Research

Important information

Owing to legal restrictions, the information in this document is not available to any person who is a “restricted person” (as defined below) or to any person who is physically present in “restricted countries” (as defined below), and it is available only to persons who are "relevant persons" (as defined below) for UK regulatory purposes.

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- any natural person resident in “restricted countries”;
- any partnership or corporation organised or incorporated under the laws of “restricted countries”;
- any estate of which any executor or administrator is a “restricted person”;
- any trust of which any trustee is a “restricted person”;
- any agency or branch of a foreign entity located in “restricted countries”;
- any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a “restricted country”;
- any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organised, incorporated, or (if an individual) resident in “restricted countries”; and
- any partnership or corporation, if:

  1. organised or incorporated under the laws of any foreign jurisdiction; and

  2. formed by a “restricted person”, principally for the purpose of investing in securities not registered under the U.S. Securities Act, unless it is organised or incorporated, and owned, by accredited investors (as defined in the rules of the U.S. Securities and Exchange Commission), who are not natural persons, estates or trusts.

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Summary of key attractions/risks

PIP's post-cost returns ca.1.5x post-cost MSCI World/ FTSE All-Share returns since inception in 1987

Since inception in 1987, to end-January 2020, PIP has delivered 11.6% average annual NAV growth. This is a ca.4% annual outperformance compared with benchmark indices over this period and ca.1.5x the market level of returns (FTSE All Share Total Return 7.1%, MSCI 7.9%) after all costs. This outperformance reflects:

Returns generated from being in attractive market, picking best bits of that market, being part of bigger Pantheon family, and a structured, proven manager selection process

- The PE process adds value, with multiple operational, strategic, financial, cultural and expertise levers to generate superior returns.
- In this attractive market, PIP's flexible, global mandate means it can exploit whichever sub-segments offer the most value. *Inter alia*, it actively manages the size of deals, the vintage and nature of investment, and the economic sector of the portfolio to optimise returns.
- Pantheon, the Manager, controls risk tightly. While the mandate is flexible, the portfolio is diversified, moderating extreme return volatility.
- Being part of the Pantheon family brings multiple benefits, including economies of scale, access to deals, a broad network of relationships, experience and expertise. It also brings strong corporate governance, with not only the Pantheon/PIP relationship but also a visibly independent board.
- As a fund investor, manager selection is key. We outlined in our initiation note the sophisticated process by which PIP's underlying managers are chosen.

Accounting NAV likely to be conservative

We also detailed in our September 2019 initiation why the accounting NAV is conservative, noting that there is no incentive for the PE fund managers (General Partners – or "GPs") or PIP to inflate valuations, the checks and balances that are in place (including multiple reviews), the fact that the valuation ratings are in line with peers and, finally, that there has been a consistent uplift to book value on exit.

Gives investors liquid access to illiquid market, capital growth, controlled downside

PIP's model gives access to a portfolio selected from the entire illiquid PE market via liquid shares. Other investment attractions include i) the capital growth story, with no tax leakage, ii) professional management of PE exposure, and iii) the KID (Key Information Document) stress-test shows lower downside risk than is the case for PIP's peers.

No financial read-across from Woodford, and appropriate gearing and liquidity

We see no financial read-across from the Woodford situation, although it could affect sentiment. The level of gearing in PIP, and in its funds and underlying companies, appears appropriate. Liquidity is managed, and PIP has lower over-commitment than its peers. PE is a resource-intensive business, but this is more than compensated for by higher returns. PIP's costs are around one tenth of the returns earned by investors.

Business sensitive to economic cycle but still grew NAV every year throughout early 1990s' recession. NAV based off premium ratings for premium growth. Assets illiquid and unquoted but PIP unlikely to be forced seller.

An economic downturn will affect the operating performance of both PIP itself and the underlying companies. It is likely to reduce valuation ratings, and sentiment will be affected by perceived gearing. However, despite these challenges, PIP grew its NAV every year through the 1990s' recession, and again in FY'20. We note that the valuation rating on underlying companies is at a 2% premium to the market, but revenue and EBITDA growth has been massively ahead of this number. While PIP has illiquid, unquoted assets, its permanent capital and liquidity management mean that it is unlikely to be a forced seller at distressed prices.

Discount in line with peers but anomalous with historical performance

PIP's discount is in line with that of its peers. However, the absolute level of 23% appears anomalous with market-beating returns generated over the long run. In 57% of years since 1988, PIP has delivered a return of 10%-30%, and with just two years of negative performance.

COVID-19

Not unsurprisingly, there was considerable attention on the impact of COVID-19. While the results are to end-May, they are based primarily off the Manager's valuations as at March 2020, which was the trough of the initial market's response to the crisis.

Before the crisis

PIP's PE managers much better prepared for current crisis than Great Financial Crisis

PIP noted that, before the crisis, its managers had i) fundraised while "times were good", amassing significant war chests over the past few years, ii) used strong exit conditions to sell portfolio companies, iii) built internal resources, adding operational, sector and capital markets expertise (this was especially noted as a differentiator from the Great Financial Crisis (GFC), with the skills PE managers now have to respond to shock events), iv) improved portfolio companies' financial positions and strengthened capital structures, v) prepared extreme "downside cases" and stress- tested recession scenarios based off their GFC experiences; and vi) invested in businesses with multiple levers for value creation, and increased buy and build activity.

PIP itself was conservatively positioned

PIP itself i) steered the portfolio towards more resilient sectors, such as IT, healthcare and consumer companies, with durable demand (leisure and hospitality are just 1.5% of the book – see portfolio section in this report below), ii) biased investment to "overweight" mid-market and growth, with its lower entry multiples, higher growth rates, more levers to help businesses to grow, and more routes to exit, iii) applied tighter filters on new investments – for example, Pantheon's "base-case" scenarios reflect a more conservative view than the underlying manager's projections, and iv) managed the balance sheet, with a conservative approach to undrawn commitments (see section below), and prepared an increased undrawn credit facility (now £300m, vs. £175m pre-crisis).

During the crisis

Rapid engagement by underlying mangers with their investments. Valuation and activity down but early signs of recovery

The PE managers increased contact with portfolio company management and conducted a rapid assessment of portfolio company issues, challenges and opportunities, which resulted in a detailed classification of investments into low-/medium-/high-impact categories. 1Q'20, portfolio valuations were down, as PE managers took account of lower public market comparables. New deal activity has, as expected, slowed (secondary market volumes are back to 2016 levels), and as buyers and sellers try to work out what the real risks are and new valuation levels.

Pantheon increased dialogue. Conservatism shown with its Manager's Provision.

Pantheon itself has increased the dialogue with managers, shareholders and the PIP board. It carried out a detailed assessment of the impact, introducing a Manager's Provision, so that its monthly NAV announcements gave a truer impression of the real value of the investments. It is typical of the conservative nature of the company that, when actual valuations were received, they were above the level PIP had used.

Benefits of PE apparent

PE outperforms in downturn. Investee companies benefit from access to capital and significant expertise/knowledge transfer

COVID-19 has reconfirmed the benefits of PE ownership. Investee companies have much more certain access to capital – to shore up balance sheets but also to take acquisition opportunities as they arise. PE backers have provided expertise and market oversights, especially to smaller and mid-sized companies, so they can much better evaluate impacts on supply chains, site closures and human resource implications. With many PE businesses being global, their insights from early experiences of previous epidemics, lockdowns and re-openings can be invaluable to companies in the later stages of a crisis.

2020 results

NAV waterfall chart

Valuation gains in FY'20, despite being based on March 2020 – trough of market's COVID-19 response

The table below shows the percentage increase in NAV over the financial periods going back to FY'13. Valuation gains in FY'20 were positive, despite being based off March 2020, when the markets were at their trough in terms of COVID-19. Investment income has continued to decline (we expect further falls in FY'21 as companies conserve cash), and expenses and taxes continue to be consistently at 1.5% of NAV.

NAV bridge (% NAV)

Financial period	Valuation gain	Investment income	FX	Buybacks	Expenses and taxes	Total
FY'13	7.0	1.8	3.6	1.2	-2.0	11.6
FY'14	11.9	1.5	-10.1	0.5	-1.4	2.4
FY'15	8.0	1.7	4.0	0.3	-1.7	12.3
FY'16	4.5	1.2	17.2	1.1	-1.7	22.3
FY'17	13.9	1.5	3.2	0	-1.7	16.9
FY'18	13.5	1.2	-2.2	0.1	-2.3	10.3
FY'19	11.0	0.8	4.5	0	-1.6	14.7
FY'20	3.2	0.7	1.6	0	-1.5	4.0
Average	9.1	1.1	2.7	0.4	-1.5	11.8

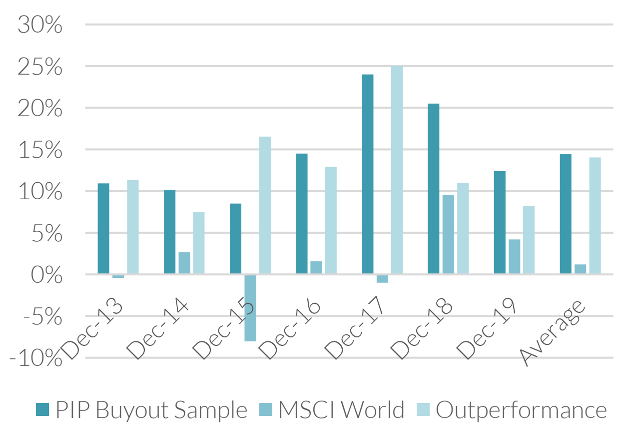
Source: PIP Report and Accounts, Hardman & Co Research

Growth multiples in underlying businesses

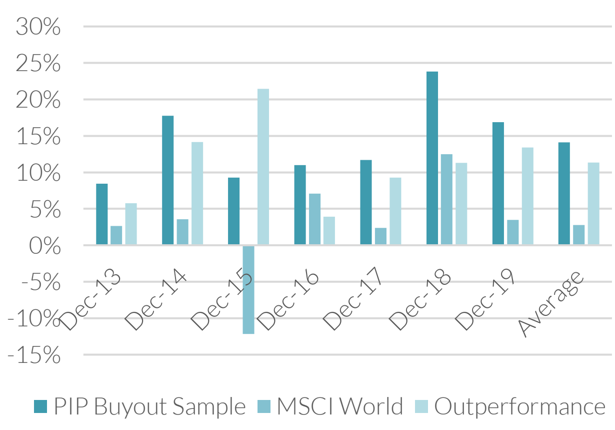
PE and PIP add value, as evidenced by consistent superior revenue and EBITDA growth. FY'20 continued this trend.

The key driver to sustained outperformance is that PE, and PIP's activities in PE, add value to the underlying companies. One metric for this is the growth in both revenue and EBITDA. The charts below show the medium-term trend for both compared with the MSCI Index. Outperformance has continued in FY'20, with revenue growth of 12% against the MSCI of 4%. The EBITDA growth shows outperformance (FY'20 17% against market 4%), and has been on an accelerated trend. The business message is that PIP's underlying companies are delivering faster growth than the market. These numbers are pre-COVID-19 but, as we detailed in the section above, if anything, we expect even more outperformance in the downturn.

Revenue growth in underlying companies (%)



EBITDA growth in underlying companies (%)



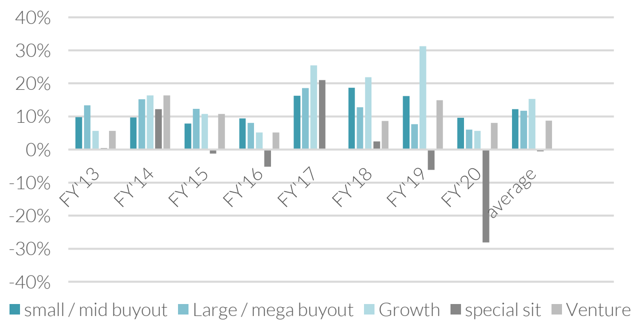
Source: PIP Report and Accounts, Hardman & Co Research

Valuation gains best in small and medium buyouts and venture. Co-investments not only best-performing type but also most resilient.

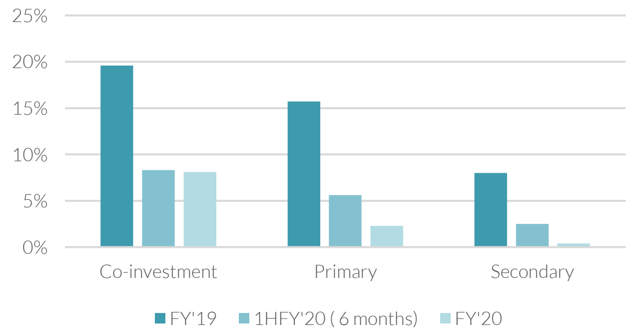
Valuation gains well spread

The charts below look at valuation gains by stage and by the type of investment (disclosure on the latter has been made only relatively recently). The messages from FY'20 are i) valuation gains in small and medium buyouts of 9.6%, just 2.6% below average since FY'13, and in venture of 8.1%, against the average 8.7%, ii) large and mega buyouts and growth still delivered ca.6.0% (historical average 11.8%), and iii) a significant reduction in special situations (FY'20 -28.1%, after fall of 6.3% in 1HFY'20). This performance was driven by the energy sector (9% portfolio March 2019, 5% March 2020), which, in the first half, saw a small number of company- specific markdowns and, in the second half, the more general impact of weaker energy prices. Valuation gains by type have again shown co-investment as being the best-performing type. Interestingly, it is also the most resilient to a downturn, with no material reduction in 2HFY'20.

Valuation gains by stage (% LHS)



Valuation gains by type (%)



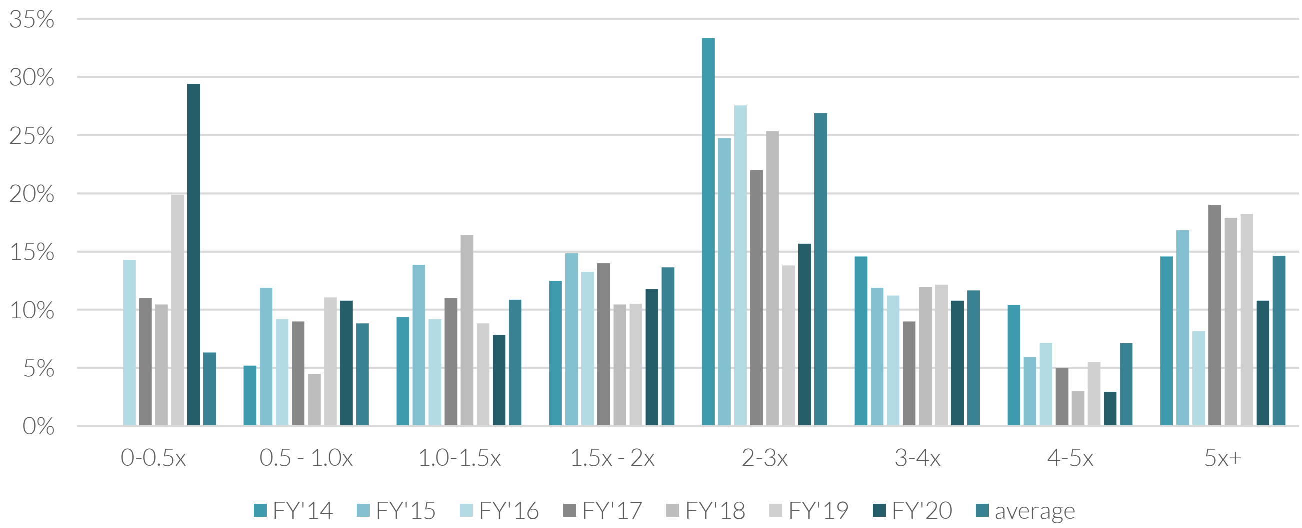
Source: PIP Report and Accounts and interim results, Hardman & Co Research

Average exit multiple 2.5x costs consistent with past. Distribution of exit multiples also stable, as is uplift to carry value of book.

Exit multiples and realisation proceeds to cost multiple

The chart below looks at the long-term track record of the cost multiple on exit. As can be seen, in any given period, there will be elements of volatility. However, taking the portfolio as a whole, there has been a remarkable stability and, in FY'20, we saw the same again, with an average multiple of 2.5x cost.

Exit realisation as multiple of cost (% by number)

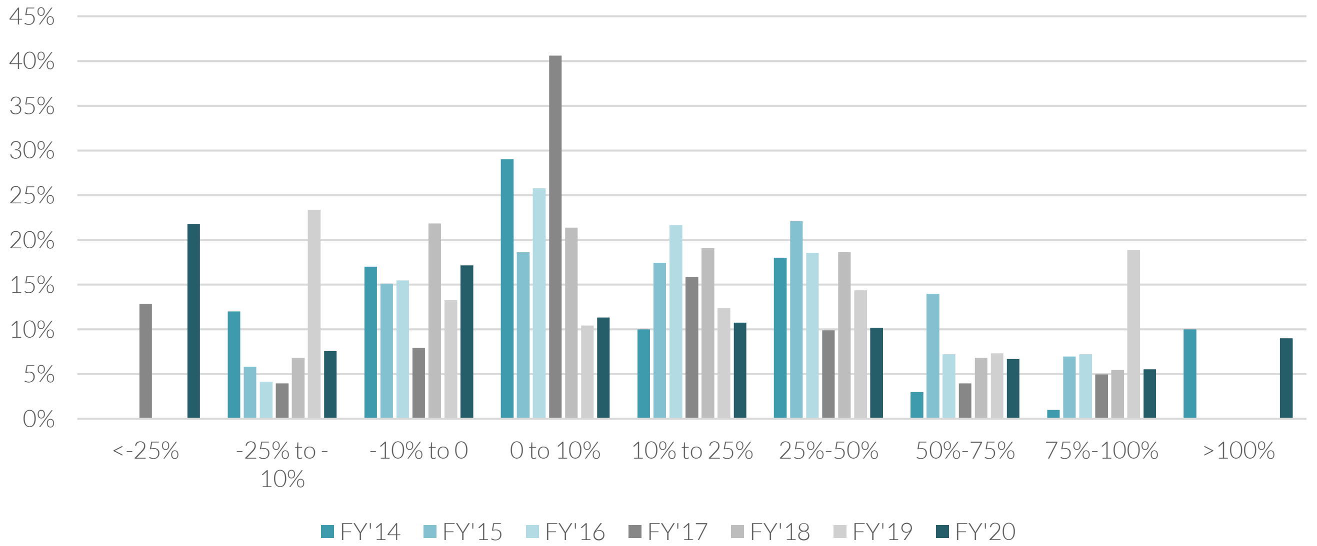


Source: PIP Report and Accounts, Hardman & Co Research

Average 28% uplift on exit

The average uplift to the book value (12 months prior to exit to eliminate any exit premium built in) was 28%. As we detailed in our initiation note, taking account of the expected EBITDA growth over the period, this scale of uplift gives some comfort that the underlying valuation is a realistic view of the companies. The chart below shows the distribution by scale of uplift.

Percentage of exits by the uplift on book value on exit



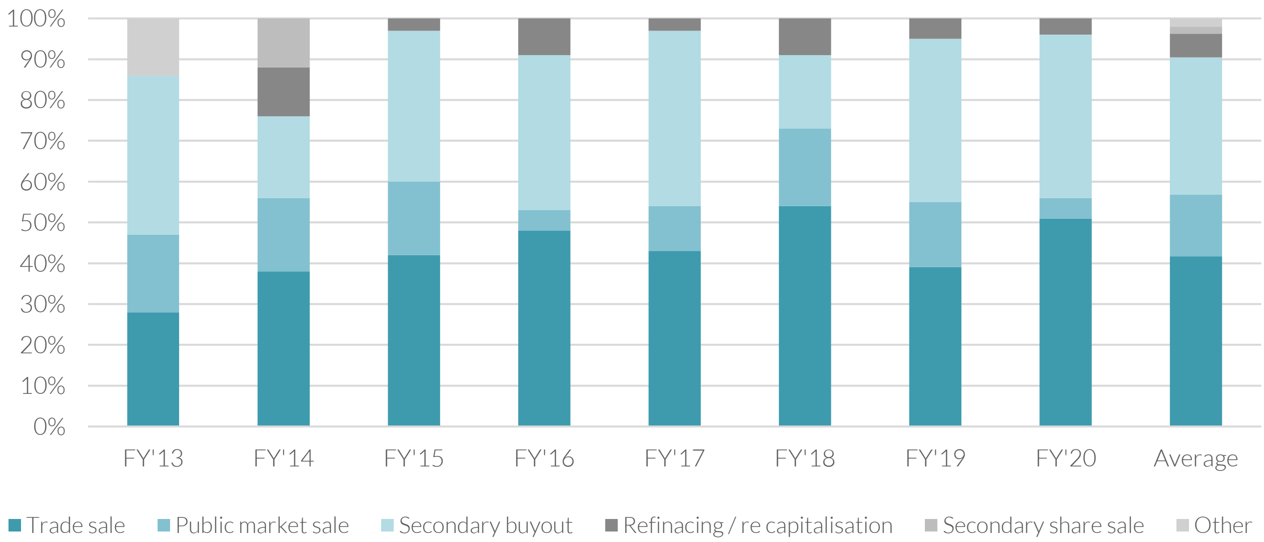
Source: PIP Report and Accounts, Hardman & Co Research

Exit by type of realisation

IPOs make up only a small proportion of exits (5% in FY'20)

The chart below shows the method of realisation over time. The key messages are that trade sales and secondary buyouts (i.e. sale to other PE houses) are each more than twice as important as public market sales. What we saw in FY'20 was a further extension of this trend, with secondary buyouts accounting for 40% of disposals (long-run average 34%), trade sales 51% (42%) and IPOs just 5% (15%).

Exit realisation by type (%)



Source: PIP Report and Accounts, Hardman & Co Research

Debt/valuation analysis

Debt to EBITDA multiples rising in large deals, but these are a reducing part of PIP book, and cov-lite documentation reduces probability of default. Debt gearing more stable for smaller deals.

PIP provides the data based off a sample covering just over half of its buyout book. From these, we can establish both debt and valuation multiples. The key messages are:

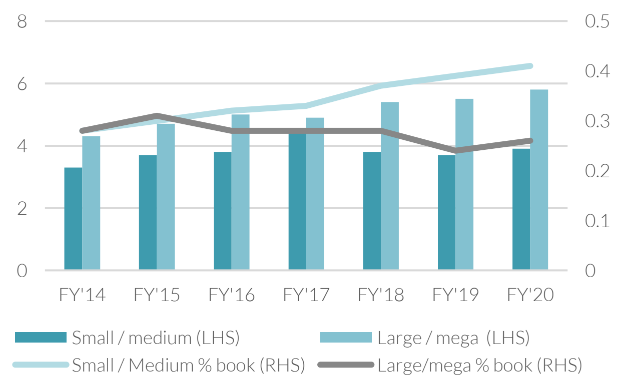
- In terms of debt, there has been a long-term, gently rising trend in the large/mega buyout books. However, these have been a falling proportion of the book (26% FY'20 vs. 31% FY'15). We also note that the cov-lite documentation is especially prevalent in this part of the market, and means that the probability of default should be lower. In 2HFY'20, there was a small debt to EBITDA reduction on 1H'19 (5.8x vs. 5.9x).

- The debt multiples in the small/medium buyout books have been broadly stable, a trend that has continued in FY'20 (at debt to EBITDA of 3.9x) and remains below the 2017 level (4.5x).

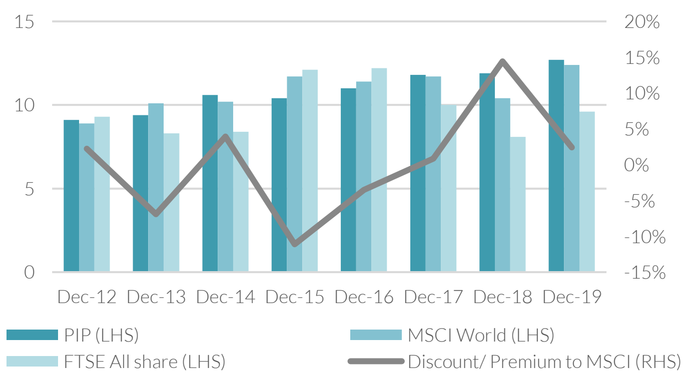
Rise in EBITDA valuation multiples reflects mix changes. Premium to MSCI World fallen from 14% to 2% December 2019 on 2018.

- In terms of valuation, there has been a trend of steadily rising average multiples of PIP's underlying companies (December 2019 EV/EBITDA 12.7x, up from 11.9x at end-2018), driven primarily by mix, with little change on a like-for-like basis for individual companies/sectors. The chart in the portfolio section shows the rise in some higher-rated sectors, such as IT and healthcare, and a reduction in industrials. The rating applied to PIP's companies moved to a premium to the MSCI World index at the end of 2017, but this premium reduced significantly in the recent results (from 14% at December 2018 to just 2% at December 2019).

Debt/EBITDA multiples (x, LHS; % book, RHS)



Valuation multiple (x EBITDA, LHS) & premium to MSCI (RHS)



Source: PIP Report and Accounts, Hardman & Co Research

Liquidity management

Focus on liquidity has never been higher. As in the rest of the industry, PIP's commitments are multi-year, but some investors have a tendency to consider these against current liquidity. This may be over-prudent, as it implicitly assumes that all commitments will be drawn (and many are not) and that no investments will be realised (and realisations tend to broadly follow a related pattern to calls on commitments, not least reflecting that a significant proportion of exits from PE Fund 1 are secondary buyout acquisitions from PE Fund 2).

23% of undrawn commitments are from 2013 or older, and so outside "normal investment" period.

Noting this, PIP had total undrawn commitments of £541m in FY'20 (May 2019 £521m). 23% of these are from 2013 or older and, generally, after year six, the only drawings are to fund follow-on investments into existing portfolio companies, or to pay expenses, i.e. calls by these funds tend to slow dramatically. For its liquidity planning purposes, PIP (we believe conservatively) assumes that all these lines will be drawn.

Taking a "doomsday" scenario approach, if we assume no realisations at all, but that 80% of undrawn commitments will still be called (a very conservative approach given the relationship between the two), the drawings of ca.£432m are completely covered by May 2020 cash of £121m and £310m of undrawn financing lines. This is an extreme scenario, which is highly unlikely to occur, but serves to illustrate the strength of the company's financial position.

Overcommitment policy much lower than peers

The table below shows that, relative to peers, PIP is very conservative in managing over-commitment.

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

Year to	ICGT Mar'20	BPET Sep'19	HVPE Jun'20 ($m)	PIP May'20	SLPE Mar'20
Total undrawn commitments	**451**	**146**	**1,706**	**521**	**451**
Cash	49	6	205	121	75
Undrawn credit line	115	50	400	310	100
Available funding	**164**	**56**	**605**	**431**	**175**
Over-commitment	**287**	**90**	**1,101**	**90**	**276**
As % NAV	38%	30%	54%	5%	42%

Source: PIP Report and Accounts, presentations and factsheets, Hardman & Co Research

Outlook

Early signs of pick-up

Clearly, there is uncertainty as to the outlook, given that the final impact of COVID-19 remains unknown. There are early signs of increased activity, with a more acquisitive stance in its managers (a view derived partially from PIP being on around 450 advisory boards). However, these green shoots could easily be killed by a short frost.

Range of opportunities in medium term

Over time, we believe there will be good opportunities, thrown up by i) companies needing the access to capital that PE provides, ii) weaker companies throwing in the towel, iii) weaker groups selling non-core businesses to strengthen their core balance sheets, iv) investee companies wanting funding for organic market-share growth, where weaker competitors have failed, and v) growth areas, such a digital medical appointments, needing incremental finance. Strategically, PIP advises that it is focused on co-investments and secondary deals, where there is much more visibility on underlying assets than in the primary market.

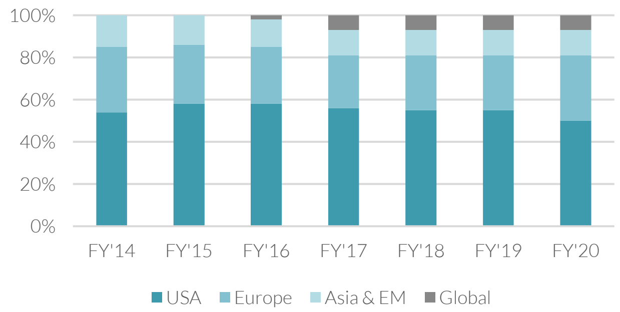
PIP has competitive advantage in secondary market

In the secondary market, PIP has very recently seen more activity. We believe it is uniquely placed to take advantage of them, given i) it has deep relationships with general partners, with whom PIP has done almost $14bn of deals since 1988, ii) its long experience in this market; iii) its scale, iv) its strong financial position, and v) its expertise, so that even complex deals can be concluded rapidly. Overall, it expects significant discounts to remain a feature of the secondary market for some years (discounts of 10%-15% remained prevalent through 2010-12), making it an attractive option.

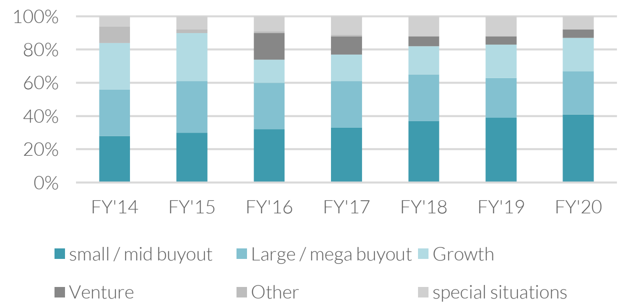
Portfolio summary

The charts below show some of the trends in the portfolio. In FY'20, there has been a continuation of trends, rather than anything dramatic, which is not surprising given the long-term nature of PIP's investments.

Geographical mix of assets (%)

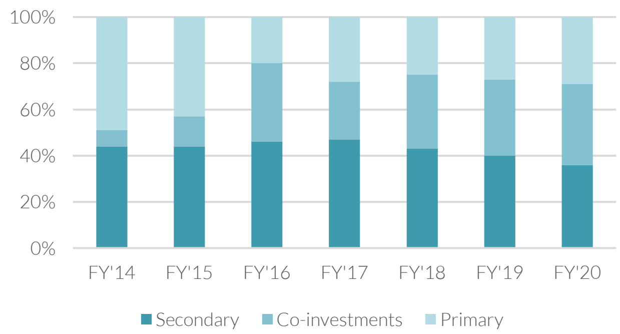


Mix by fund stage of investment (%)

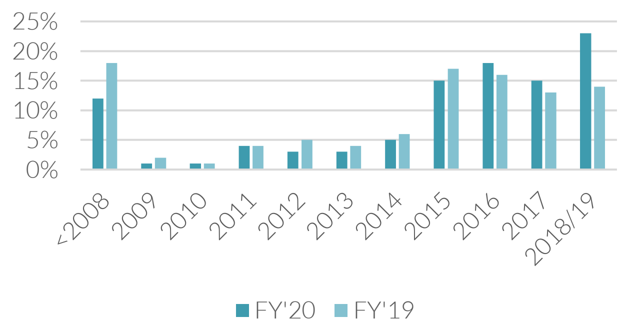


Source: PIP Report and Accounts, Hardman & Co Research

Mix of investments by type (%)

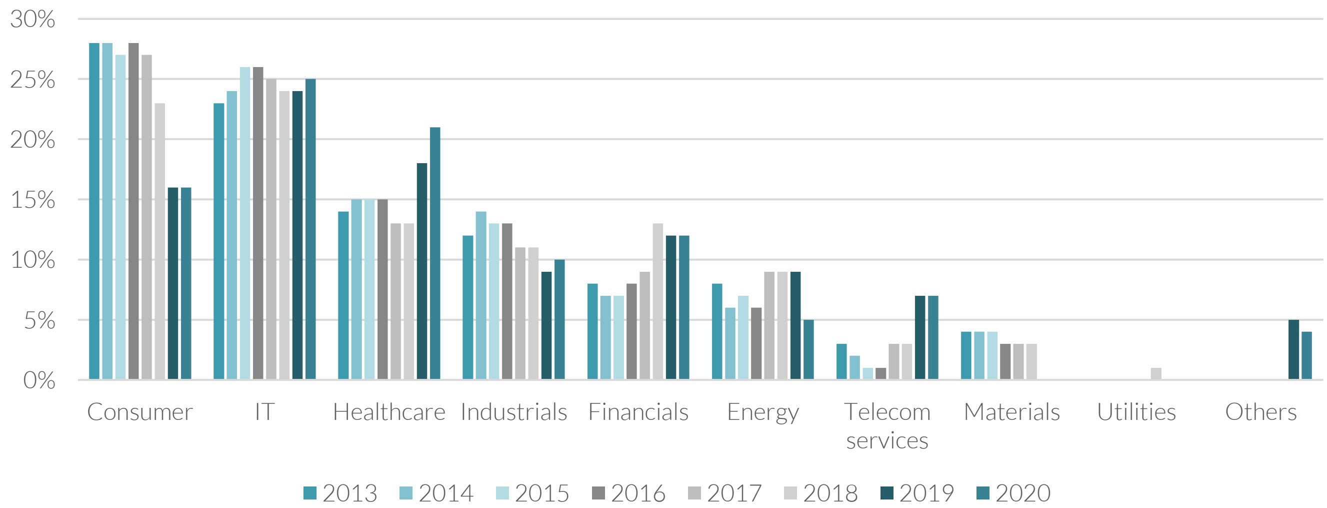


Mix by fund maturity of investment (%)



Source: PIP Report and Accounts, Hardman & Co Research

Sectoral mix of investments (%)



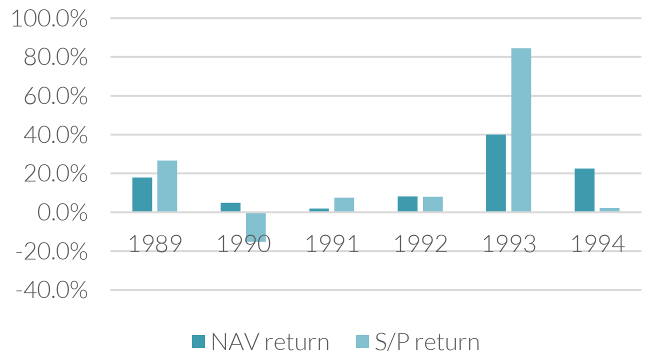
Source: PIP Report and Accounts, Hardman & Co Research

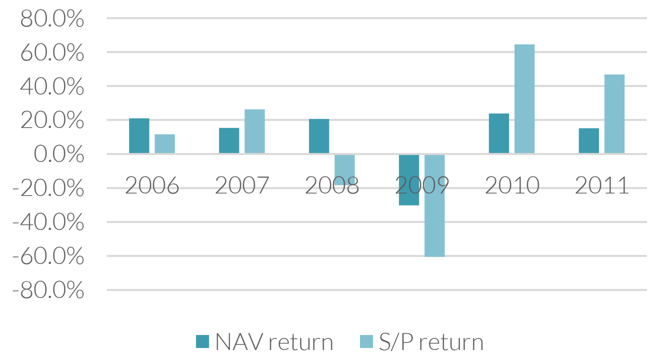
Macroeconomic downside history

NAV grew every year in early 1990s' recession

Given the recent market turmoil, we thought it might be helpful to summarise our comments from pages 42-45 of our *initiation report*, where we looked at how PIP had performed in various downside scenarios. We note that, in the early 1990s' recession, PIP reported NAV accretion every year. Compared with the financial crisis, PIP is now much more liquid, and so much less likely to be a forced seller of assets at distressed prices. We also highlighted the academic research, which showed not only that PE-backed companies continued to outperform quoted ones in a recession but also explained this outperformance. The better management and, especially having committed financial backing, meant PE-backed businesses could take advantage of such conditions.

Annual NAV and share price performance (%) in early 1990s' recession (left-hand graph) and financial crisis (right-hand)





Source: PIP Report and Accounts, Hardman & Co Research

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

A downturn has several potential impacts, including: i) weaker operational performance in the underlying companies – we note that, in 2009, revenue growth was significantly ahead of benchmark averages and the underlying companies still produced, on average, a 7% increase in EBITDA – and, while these rates were slower than pre-crisis, they were still positive growth performances; ii) it would affect PIP's own operational parameters – the distribution rate fell by three quarters (from 39% of the opening portfolio in FY'07 to 11% in FY'09/10), and the call rate nearly halved (from 37% of outstanding calls in FY'07 to 16% in FY'10); iii) there is a higher risk of default where companies have more leverage (for PIP, we note that mid-market gearing levels are stable – in the larger buyout space, higher leverage is partially offset by increased cov-lite documentation, reducing the probability of default); iv) the EBITDA rating applied to underlying companies is likely to fall with market falls, reducing the NAV; and v) there are likely to be many more attractively priced re-investment opportunities.

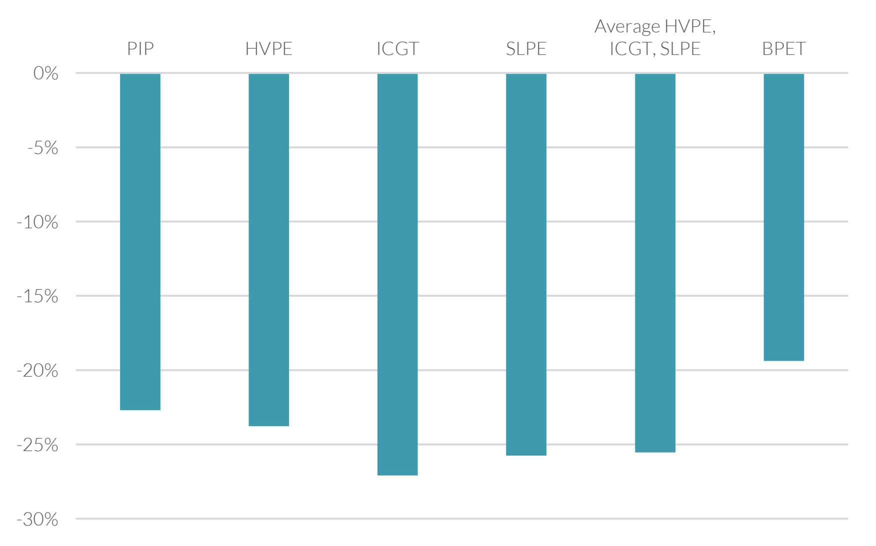
As may be expected, Pantheon employs a rigorous set of internal stress-tests across the portfolio, reviewing multiple scenarios to ensure appropriate management of the portfolio in the event of a downturn, while, at the same time, positioning it to maximise capital growth. Pantheon also pursues a holistic approach in the due diligence of a manager, reviewing a host of quantitative and qualitative measures that provide a well-researched view of the prospects for a manager's next fund. These helps Pantheon assess how well placed the manager is to generate consistent returns through the cycle.

Valuation

Discount to NAV 23%

PIP and its peers continue to trade at a considerable discount to NAV, bearing in mind i) the valuations are based off March low comparables (markets since then have improved), and ii) the long-term track record of outperformance.

Discount to NAV (%)



Source: Latest company factsheets on websites, priced at 13 August 2020, Hardman & Co Research

Triggers for a re-rating

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

PIP and 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 23% 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 fund holdings of illiquid assets. However, we do expect a steady moderation in its intensity from here.
- We have stated that the discount appears anomalous. In this case, one key consideration will be communication. We note that PIP has become increasingly active in its investor engagement, *inter alia* paying for sponsored research, hosting a capital markets day to better inform the market, and building a new and engaging website.
- Further delivery of consistently strong performance, in line with historical experience, through an economic downturn.
- The discount to NAV has widened significantly in the recent turmoil. Part of this is because it will take a little time for the NAV to reflect the falling market ratings, but we believe part is also due to worse-than-average sentiment to PE in such conditions. A normalisation of sentiment may lead to a discount reduction.

Financials

Our 2021 forecast NAV is unchanged. We have seen a modest reduction to gains, Investment Manager fees, costs and interest payable, but nothing material.

Profit and loss (£000)

Year-end May	2019			2020			2021E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
Gains on investments at FV through P/L		204,473	204,473		72,264	72,264		174,996	174,996
ALN losses on Fin. Liab. at FV through P/L	-1,229	-8,815	-10,044	-502	277	-225	0	0	0
Currency (losses)/gains on cash & debt		6,810	6,810	0	1,403	1,403	0	0	0
Investment income	13,222		13,222	11,198	0	11,198	11,218	0	11,218
Investment Manager's fee	-16,584		-16,584	-17,674		-17,674	-18,500		-18,500
Other expenses	-5	-568	-573	-730	-1,719	-2,449	-500	-1,000	-1,500
Return before finance costs and taxation	-4,596	201,900	197,304	-7,708	72,225	64,517	-7,782	173,996	166,213
Interest payable and similar expenses	-2,386		-2,386	-2,223	0	-2,223	-2,223	0	-2,223
Return on ordinary activities before taxation	-6,982	201,900	194,918	-9,931	72,225	62,294	-10,005	173,996	163,990
Taxation	-2,594		-2,594	-1,616		-1,616	-1,616		-1,616
Return on ordinary activities after tax	-9,576	201,900	192,324	-11,547	72,225	60,678	-11,621	173,996	162,374

Source: PIP Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 May	2015	2016	2017	2018	2019	2020	2021E	2022E
Investments at fair value through P/L	862,029	1,071,876	1,224,142	1,274,737	1,449,634	1,495,689	1,711,530	1,892,623
Current assets								
Debtors	1,805	3,654	1,661	3,891	3,222	1,259	1,259	1,259
Cash and cash equivalents	137,483	115,522	167,252	162,292	142,773	130,091	61,625	58,056
Total assets	1,001,317	1,191,052	1,393,055	1,440,920	1,595,629	1,627,038	1,774,413	1,951,938
Current liabilities								
Creditors	1,253	3,938	5,522	19,046	4,682	10,030	10,030	10,030
Long-term liabilities								
Asset-Linked Loan (ALN)				115,110	92,359	57,743	42,743	27,743
Net assets	1,000,064	1,187,114	1,387,533	1,306,764	1,498,588	1,559,266	1,721,640	1,914,165
NAV per share (p)	1,532	1,874	2,190	2,415	2,771	2,883	3,183	3,539

Source: PIP Report and Accounts, Hardman & Co Research

Cashflow (£000)

Year-end May	2015	2016	2017	2018	2019	2020	2021E	2022E
Investment income received	14,855	11,664	17,105	13,619	12,818	10,356	11,218	17,115
Deposits and other income	60	159	343	830	1,359	952	1,000	1,000
Investment management fees paid	-9,876	-11,011	-12,506	-14,969	-16,401	-17,623	-18,500	-19,500
Other fees/cash payments	-1,727	-2,155	-1,867	-6,309	-17	-3,868	-3,751	-3,751
Withholding tax deducted	-1,437	-1,985	-4,257	-10,483	-3,407	-1,776	-1,616	-1,616
Net cash inflow/(outflow) from operating activities	1,875	-3,328	-1,182	-17,312	-5,648	-11,958	-11,649	-6,752
Cashflow from investing activities								
Purchase of investments	-171,799	-263,203	-251,181	-254,426	-285,326	-239,251	-340,000	-415,303
Disposals of investments	225,971	244,540	303,131	351,335	313,330	267,126	300,000	435,303
Net cash outflow from investing activities	54,172	-18,663	51,950	96,909	28,004	27,875	-40,000	20,000
Cashflows from financing activities								
ALN repayments	0	0	0	-77,152	-44,909	-28,023	-15,000	-15,000
Share buybacks	-6,872	0	0	-3,546	-500	0	0	0
Redeemable share buybacks	-4,389	-22,022	-26	0	0	0	0	0
Loan commitment and arrangement fees paid	-1,953	-992	-1,378	-1,577	-3,286	-1,816	-1,816	-1,816
Finance costs paid for deferred pay't transaction	0	0	-182	0	0	0	0	0
Net cash inflow from financing activities	-13,214	-23,014	-1,586	-82,275	-48,695	-29,839	-16,816	-16,816
Net increase in cash and cash equivalents	42,833	-45,005	49,182	-2,678	-26,339	-13,923	-68,465	-3,568
Opening cash and cash equivalents	88,346	137,483	115,522	167,252	162,292	142,773	130,091	61,625
FX effects	6,304	23,044	2,548	-2,282	6,820	1,241	0	0
Closing cash and cash equivalents	137,483	115,522	167,252	162,292	142,773	130,091	61,625	58,056

Source: PIP Report and Accounts, Hardman & Co Research

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