

BUY

PRIVATE EQUITY INVESTMENT TRUST

STANDARD LIFE EUROPEAN PRIVATE EQUITY TRUST (SEP)

Tap into European private equity dealflow

Bull points

- Mature portfolio means strong exit pipeline
- Strong European M&A market
- Good distributions
- Diversified portfolio

Bear points

- Weakening euro threat to NAV

European merger and acquisition (M&A) flow continues to deliver solid returns for IC Top 100 Fund **Standard Life European Private Equity Trust (SEP)**, so it could be a good time to make the most of its potential pipeline of well-valued exits. European equity markets are up and dealflow is looking strong for 2015.

SEP's principal investment focus is leading European private equity funds investing in mid to large buyouts – those with an enterprise value between €200m and €2bn. The bulk of its investments are in buyout funds with a maturity of over five years, and the majority of its investments are in Europe.

The trust is likely to benefit from its relatively mature portfolio, which is likely to see a strong pipeline of exits and distributions over the coming year. Half the portfolio funds started making investments over five years ago and the average return on investments realised during 2014 was the highest since 2009, at 2.02 times.

Stifel Securities has increased its estimate of the net asset value (NAV) of the portfolio as the broker believes that the trust's unquoted portfolio will rise in value in the coming months in line with comparable quoted companies. The trust's NAV is currently 253.76p, but Iain Scouller, head of investment company research at Stifel, believes that by 31 March 2015 NAV will sit between 250p and 260p, and has set an estimate of 255p to 265p by the end of June. NAV increased from 247.9p per share at the end of January to 252.22p on 24 March, and SEP's share price also increased from 207.3p to 218p over the same period. That decline from 269p at the end of December 2014 reflects the payment of a 5p dividend on 30 January 2015 and the impact of the weakening euro.

The euro will continue to be a headwind for the fund. According to Mr Scouller currency volatility "more than offset the gains from the unquoted portfolio". However with the majority of the portfolio in euro-denominated assets, the trust could be a beneficiary of a weakening pound ahead of the UK general election.



Top holding 3i Eurofund V has invested in Basic-fit, a discount fitness operator in Europe

Like many private equity funds, SEP has traded at a significant discount to NAV for a number of years, but this has tightened in recent months. It is currently trading at a discount of 14.09 per cent.

A pick-up in European M&A activity has translated into a return to distribution levels not seen since 2007. The fund received distributions from its fund interests of £101.8m in 2013-14, compared with £69.3m for the previous financial year. It also managed to deliver higher total returns than both the FTSE All-Share and MSCI Europe in 2012, 2013 and 2014.

On top of the distributions in its last financial year, the fund received £200,000 in contributions from Charterhouse Capital Partners IX fund in January following a further sale of Card Factory listed shares, and £1.6m from Cinven Fourth Fund after the listing of Spire Healthcare on the London Stock Exchange in July. A sale of Hugo Boss listed shares also meant £500,000 in distributions from Permira IV fund.

A key benefit is SEP's diversification: the investment trust holds funds that invest in private equity, so it has exposure to a greater number of investments than private equity trusts that invest directly. And, since 2007, it has been defensively positioned in sector terms – at the end of its last financial year it had 22 per cent exposure to industrials, 20 per cent to consumer services and 7 per cent to technology.

If you want to buy into a potential pipeline of well-valued exits, and have a high risk appetite and long-term investment horizon, then Standard Life European Private Equity Trust is worth consideration. Buy. *KB*

IC TIP RATING

Tip style: GROWTH

Risk rating: HIGH

Timescale: LONG TERM

Standard Life European Private Equity Trust

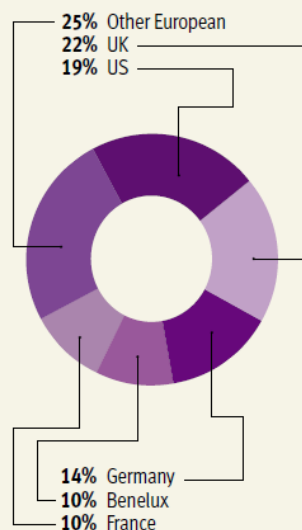
Price: 215.99p	NAV: 252.22
AIC sector: private equity	Price discount to NAV: -15.45%
Fund type: investment trust	Yield: 2.34%
Market cap: £335.44m	Ongoing charge: 0.95%
No of holdings: 43	More details: http://www.slcapital.com/
Set-up date: 29 May 2001	Source: Morningstar, as at 24 March 2015
Gearing: 0%	

Top 10 holdings

3i Eurofund V	8.3%	Cvc Euro Equity Partners V	5.1%
Industri Kapital 2007	7.9%	Candover 2005	5.1%
Equistone Partners Europe Fund III	5.7%	Terra Firma Capital Partners III	4.1%
Equistone Partners Europe Fund IV	5.4%	BC European Capital IX	3.6%
Apax Europe VII	5.4%	MONTAGU IV	3.3%

Source: AIC.com, data as at: 30/09/2014

Geographic allocation



Performance

	2015	2014	2013	2012	2011	2010	2009	2008
Index : FTSE All Share TR in GB	8.37	1.18	20.81	12.3	-3.46	14.51	30.12	-29.93
Index : MSCI Europe TR in GB	10.95	-0.34	22.91	13.89	-10.39	7.14	20.93	-25.82
Standard Life Euro. Private Eq TR in GB	1.87	10.02	23.24	32.04	-8.15	42.59	51.92	-68.84

Source: FE Analytics