# Why size matters in private equity

**NBPE's scale tilts the odds in favour of shareholders...**

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Some say that size doesn't matter, but when it comes to private equity, having scale can be crucial in finding and making the right investments, at the right time, alongside the right partners.

In the investment trust world, this scale is perhaps even more important. Investment companies tend to be relatively modestly sized beasts and private company deals are getting bigger and bigger. Finding a trust with a large platform behind it, then, can make all the difference.

Yet, there can be misconceptions. Take **NB Private Equity Partners (NBPE)**. The trust itself weighs in at £725 million – at first glance then, a relative minnow against the £31.5 billion behemoth that is 3i Group, or peers such as the £1.8 billion HarbourVest Global Private Equity (HVPE).

Some might think, then, that NBPE is at a disadvantage when it comes to finding the top private investments. That ignores a crucial detail, however – which is that NBPE has the benefit of having the backing of one of the largest private market platforms globally at over $115bn.

## Law of large numbers

The numbers are impressive. Neuberger Berman (NB) is 100% employee owned and as of 30/06/2024 had $481 billion in assets under management.

With offices in 39 cities, and 21 portfolio management centres around the world, it can call on more than 2,800 employees and has a retention rate of 96% for managing directors and senior vice presidents since becoming independent in 2009.

The private markets division of NB, NB Private Markets, is similarly well resourced with a team of more than 410 based in 15 offices globally speaking more than 35 languages. The firm manages $115 billion of assets, having been investing in private markets for 35 years. The average level of experience among the senior investment team is 21 years.

NB's platform has reviewed more than 5,100 deals and committed more than $30 billion in capital across primaries, secondaries and co-investments over the past three years. Of the primary allocations requested by the firm in the past three years, 99% have been filled.

It has made more than 750 fund commitments and more than 480 direct equity and credit investments.

## Why does this matter?

The strength of NB as a backer has positive implications for for NBPE shareholders. Being a well-recognised and well-resourced private equity player in the industry, NB occupies a privileged position in the private market ecosystem, giving it access to high quality deals which less blood blooded institutions are not party to..

Management of NBPE is led by Peter Von Lehe and Paul Daggett, both of whom are managing directors within the private markets business at NB and are part of the investment committee for primaries and co-investments. The investment committee comprises 13 members, who have an average of 30 years of professional experience and have worked together for an average of more than 20 years. The team claim to have more than 745 active private equity fund positions and over 400 private equity manager relationships.

NBPE aims to invest in private companies in order to generate long-term growth for its shareholders. It does this through what's known as equity co-investment. This means that NBPE takes minority stakes directly into private businesses alongside a private equity manager or sponsor.

This is in contrast to many of its listed private equity peers, which run a fund of funds strategy that requires them to pay management and performance fees to the managers of the underlying funds. Because NBPE's investments sit outside of the private equity fund structure, it does not pay management and performance fees on its co-investments.

NB has been able to position itself as a strategic partner to private equity managers and it is not a competitor but a capital solutions provider. With co-investment they are often brought in early on in the investment process, given the knowledge and experience of the team and broader platform.

NB's large size and the speed with which decisions can be made can be competitive advantages when sourcing and executing these co-investments.

## How it works in practice

NBPE can participate in all the co-investment deals sourced from the NB Private Markets platform, but it has its own processes and is selective of the considerable deal flow that NB sees.

Last year for example the NB Private Markets Platform saw nearly 600 co-investments (an average of around 11 per week), but only 51 were executed, meaning 92% of the deals that the team saw were declined. Once a deal is approved at the platform level the NBPE team then have responsibility from a portfolio construction perspective to ensure that the investment complements the existing holdings, ensuring that the portfolio remains diversified across sector, geography, company size and lead private equity manager.

New investment activity for NBPE has been muted more recently, with a total of $22 million invested in 2023 and $63 million into three new investments, plus an additional $9 million into follow-on investments, so far in 2024.

Another benefit of the co-investment model is that it gives the managers a high level of control over the timing of new investments. In other words, unlike peers that might need to do periodic follow-on investments regularly, NBPE can start and stop investing whenever it deems it appropriate and build the portfolio investment by investment from the bottom up.

Indeed, the reason NBPE decided to pause new investment in recent years was to focus on its balance sheet strength at a time when there was little visibility on realisation activity given the more uncertain environment for exits.

As a result of this, NBPE has $386 million of cash, liquid investments and undrawn credit line, leaving it in a strong position. The board intends to use $85 million of this to repay its 2024 zero-dividend preference shares when they mature at the end of October.

After that, NBPE will have around $300 million of available liquidity, which can be used to fund new investments, pay the dividend or buy back shares.

NBPE's approach is distinct from its peers and, in our view, the trust offers investors an interesting way to harness the strengths of the private equity model via a strategy offering daily liquidity to shareholders.

The trust's historically wide discount (24.98%) makes it particularly interesting at this point. Writing last month, Kepler's William Heathcoat Amory **outlined the factors which could cause that discount to narrow**, saying: "Lower interest rates, growth in the underlying private equity companies, and higher realisation activity may be catalysts for the discount to narrow".

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