Like a fine wine

Hansa's private asset exposure looks attractive.

Update
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There's an old saying that wine gets better with age. It's been around for a long time, though it's truer for fine wines, rather than commercial wines. Certainly, if you're looking to invest in wine, you'll want an older vintage, but these days most wines are supposed to be consumed when bought.

Today, one could argue that companies are becoming more like fine wine, rather than the stuff that's made to be drunk. That is, they are peaking and becoming publicly listed later in life, rather than being built to IPO quickly.

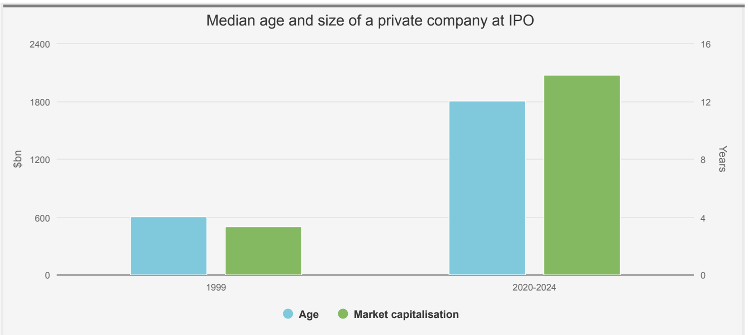
For a long time, newly founded businesses were in a race to become publicly listed. There was a real cache in having your business listed on, say, the New York or London stock exchange. It was almost seen as the pinnacle landmark for a company.

Indeed, in 1999, the median company was young and immature, being just four years old and $493m in size at IPO. Apple had been founded four years before its 1980 IPO, as was Netflix when it floated in 2002. When Amazon became a listed company in 1997, it was not even three years old.

Fast forward to more recent times and private companies are going the other way: the older, the better. Spotify was 12 and Airbnb was 13 when they listed in 2018 and 2020 respectively; Palantir was a 17-year-old spotty teenager when it floated.

The median company that floated on the stock market between 2020 and 2024 was 12 years old and worth more than $2trn. These numbers are only going up. SpaceX was a full-on adult, at 24 years old, when it became the biggest IPO ever in June.

Fig.1: Companies Are Staying Private Longer



Source: Jay R. Ritter, University of Florida

Still, the point stands: if you want to get exposure to some of the biggest and best companies in the world these days, you need to invest at least some of your cash in private equity (PE). This is a double-edged sword. PE is not an easy asset class to get access to, since the top funds require millions of pounds in initial investment that will get locked-up for long time periods.

Investment trusts democratise access to PE. The closed-end nature of trusts and their long-term investment horizon means they can provide access to an inherently less-liquid asset class while giving shareholders liquidity and a low-priced entry point.

A long history

Funds that combine exposure to private companies alongside a sleeve of publicly listed stocks appeal to those with a growth-oriented mindset, as do the pure listed PE trusts, which pair well with mainstream global equity exposure, but there are options for those preferring a less volatile ride, such as **Hansa Investment Company**.

Hansa's exposure to private assets appeals to us, especially when paired with the rest of its portfolio. One could argue Hansa is now the ultimate one-stop-shop investment: a diversified, multi-asset portfolio

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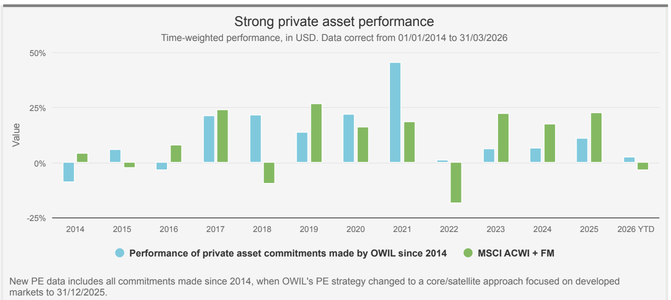
with the goal of generating long-term capital growth from a mixture of investments spanning publicly listed equities, bonds, hedge funds and private assets.

It's this private asset sleeve that we find so compelling and differentiating. Hansa has been investing in PE since 2023 and had already committed to 11 PE funds from nine different managers, but it was Hansa's combination with Ocean Wilsons (Investments) Ltd (OWIL) that demonstrates the long history the investment company has in this area.

OWIL started investing in PE over 20 years ago and the combination between the two entities brought its mature PE portfolio into Hansa. Hansa Capital Partners (HCP) was the investment advisor to OWIL and investment manager to Hansa throughout the entire life of their PE programmes. HCP CIO Alec Letchfield launched the current core/satellite approach in 2014, and commitments made by OWIL since that time have returned 259.7%, versus 198.1% for the MSCI All Country World Index (including FM). These assets are now held in Hansa's portfolio.

Fig.2: Differentiated Performance



Source: Hansa Capital Partners, Bloomberg

All the PE funds and managers Hansa invested in were also in OWIL and both entities followed Alec's core/satellite approach. As HCP is now the investment advisor to Hansa, nothing fundamental changes post-combination.

What it does do is give Hansa more scale, while also automatically increasing Hansa's exposure to private assets. Prior to the combination, private assets accounted for 0.6% of Hansa's assets. Following the combination, private assets amount for c. 10%, and over time the plan is to grow it to c. 20%.

In at the ground floor

Hansa invests in general partner (GP) structures as management believes their fixed-term structures create a greater incentive for the GP to invest in, grow, then sell assets. It does not invest in semi-liquid structures, where there's a mismatch between investor redemptions and underlying asset liquidity; avoids investing in evergreen, closed-end structures given their exposure to public market volatility; and does not do direct private company investment, which is hard and requires a specialist team and can be a graveyard for investors.

The core of Hansa's PE approach consists predominantly of developed market buyout funds run by some of the best managers. These include KKR North America, which operates an upper-middle-to-large-cap buyout strategy, and TA Associates, a growth manager. TA invests globally with a focus on the US and targeting the technology, healthcare, financial services and business services sectors. Top investments the TA team has participated in include Aldevron, which provides tools to the life sciences sector and was acquired by Danaher for c. $10bn in 2021; and insightsoftware, which provides analytics and performance management solutions for a range of corporates.

The satellite sleeve is focused on more specialist areas that have higher potential returns. HCP first invested with Kholsa Ventures, founded by Vinod Khosla, the co-founder of Sun MicroSystems, in 2021. Khosla is one of the world's leading venture capital investors, investing in areas such as AI, medtech and robotics. Notably Khosla was in at the ground floor of some of the most exciting growth stories of recent years such as OpenAI, Impossible Foods and Stripe.

This all plays into Hansa's unique strategy that clearly differentiates it from peers. Alongside the private equity sleeve sits a portfolio largely made up of specialist active managers that are often unavailable to most investors as well as lower-cost broad market exposure, a direct equities sleeve and some more all-weather, diversifying funds.

In addition, Hansa exhibits strong alignment of interests with shareholders, with management seeking to grow intergenerational wealth over the long term; a new share buyback policy aimed at tackling a wide discount that is yet to recognise Hansa's new, more simplified structure.

Like a fine wine, Hansa seems to be maturing well and stands out to us as an interesting proposition for investors wishing to look beyond traditional multi-asset funds, particularly on a c. 41% discount that we suspect is going to narrow in the coming months and years, making future long-term returns look potentially significant.

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