Why tariffs might not terrify private equity investors

NBPE looks less exposed to tariff risks than others...

Update
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Many a column inch will be used to speculate on the exact ramifications of US President Donald Trump's tariffs, and which countries or industries will be the worst (and least) affected. In our view, it's impossible to know in advance how the tariffs will affect individual sectors, nations or regions in the short-term, let alone predict how the stock market will react.

Still, it is perhaps a good time for long-term investors to assess their options in the hope of picking up a bargain or two.

Within the investment company realm, we believe that the listed private equity industry will be less affected by tariffs than will the overall economy because the focus of most private equity managers' investments are in service-related businesses with intangible assets, rather than tangible goods, where tariffs are likely to be felt most heavily.

In other words, private equity managers tend to gravitate towards sectors and industries where innovation and intellectual capital are the primary drivers of value and, thus, are less at risk of significant tariffs; examples would be information technology, healthcare and financial services.

Meanwhile, private equity portfolios are generally less exposed to economic sectors most at risk from tariffs, such as industrials, materials and consumer goods, where things such as heavy machinery, white goods and clothing can easily be made abroad and imported into the US.

Sectors in the table below are sorted by their reliance on imports, with the most import-reliant sector at the top and the least import-reliant at the bottom. You can see that the industrials and consumer discretionary sectors, both of which are heavily reliant on imports, contribute a collective 45.3% to overall GDP, yet they account for just 22.9% of total private equity portfolio net asset value (NAV), according to figures compiled by Neuberger Berman for the private equity industry as a whole. On the flipside, the IT and healthcare sectors – which are less reliant on imports – make up fully 43% of PE NAV.

You will have no doubt noticed that healthcare and IT both sit in the "middle field" of import reliance, but as we understand it private equity portfolios generally have limited exposure to the import-dependent areas within those sectors, such as semiconductors, pharmaceutical components and medical equipment.

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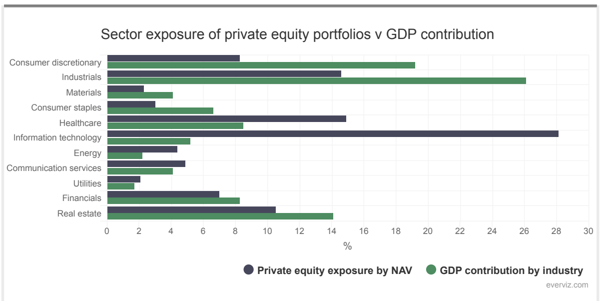
Fig.1: Private Equity Seems Less Exposed To Tariffs



Source: MSCI, Bureau of Economic Analysis, Neuberger Berman

None of this is to say that private equity will be completely immune to tariffs, or other related macro and geopolitical uncertainties, in the short term. Indeed, the average share price total return of listed private equity funds between 03/01/2025 and 07/04/2025 was c. -10%, according to FE fundinfo.

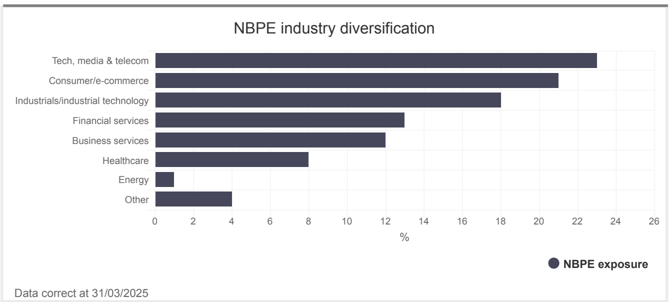
Yet, in our view, this strategic positioning could help buffer the larger private equity ecosystem from the input-cost fluctuations and supply-chain disruptions that tariffs can cause.

Insulated from tariff risk

To illustrate this further, you can see below the industry exposure that **NB Private Equity Partners (NBPE)** has: c. 20% of its portfolio is in consumer names and e-commerce, c. 25% of which is invested in Action, NBPE's largest holding, which is a pan-European discount retailer and therefore is immune from the direct impact of US tariffs.

NBPE is biased to service-based, mid-cap domestic American and European businesses, rather than, say, widget makers and the like, meaning its portfolio earnings are less likely to be impacted than trusts investing in, say, public markets globally.

Fig.2: NBPE's Portfolio Weightings



Source: NB Private Equity Partners

Neuberger Berman, alongside its underlying private equity sponsors across its platform, has worked to assess the potential impacts of tariffs on its own investment holdings. NBPE believes the direct impact of tariffs is generally expected to be limited with 86% of the portfolio having little to no impact. It is estimated that 14% of the portfolio's fair value could be directly impacted by tariffs, with approximately 1% of fair value likely to be meaningfully affected.

However, this analysis only considers the direct impact from tariffs and does not account for second-order effects resulting from any potential economic slowdown. Should this materialise, one can see that NBPE seems, in our view, well positioned.

In addition, private equity is an inherently actively managed asset class, so it goes without saying that private equity managers will be actively considering and undertaking strategies to mitigate the potential impact of tariffs. These include looking to diversify supply chains, reduce operational expenses or costs and increase prices.

Successful investments

NBPE itself stands in an enviable position versus its listed private equity peers because its co-investment model and healthy balance sheet give NB greater flexibility than other listed peers.

NBPE partners with some of the world's leading private equity managers to invest directly into private companies as a minority investor, instead of investing into private equity funds. Unlike many of its fund of fund peers, who might be forced to do periodic, follow-on investments, even when it may not be in their best interest, NBPE effectively has no future investment commitments, meaning it is not forced to raise cash to make new investments at inopportune times.

NBPE has full control of the timing of new and follow-on investments allowing the team to start and stop investing whenever they deem it appropriate. In addition, available liquidity was $278.8 million as of 28/02/2025, putting NBPE in a strong position to be proactive in considering their options, which include making new investments or making share buybacks.

That proactivity has been seen over recent years. NBPE completed four new investments through the course of 2024, all of which are attractive long-term secular growth opportunities in healthcare, financial services and aerospace and defence.

The investments also introduce four new lead sponsors to NBPE's portfolio: TA Associates, EQT, Audax Private Equity and Leonard Green & Partners. Each of these are well-known, high-quality private equity managers with what seems to be a compelling value proposition for these portfolio companies.

We understand that these investments are off to a strong start, with NBPE's 2024 vintage having already generated a 22% IRR on a combined basis as of 31/12/2024. The board is excited about the prospects for each of these businesses, which are in the early days of their value creation journey.

Like the rest of the broad market, NBPE has quickly rebounded from its steep share price falls post Liberation Day, yet shares remain c. 15.2% lower than their one-year high, and fully 21% below their 2022 peak.

Overall, we believe that tariffs mean that investors need to be aware of both the geographical and industrial exposures within their portfolios to shield against any unintended biases towards overly exposed investments.

NBPE's resilient sectoral positioning and co-investment advantages seem, to us, to have been unfairly penalised, with shares standing out as compelling value for adventurous, long-term investors on a c. 33% discount to NAV.

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