Many happy returns

NBPE has rewarded shareholders since listing in London 15 years ago...

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A lot can change in stock markets in a relatively short space of time, and investment companies are a great example of how beneficial, subtle but important changes, agreed upon by shareholders, can be.

NB Private Equity Partners (NBPE), which celebrated 15 years of being a London-listed investment company in June, is a case in point. A change in investment strategy early on in its life allowed it to deliver a share price return of 555.7%, or 13.4% annualised, for shareholders who stuck with the company.

NBPE, founded in 2007, launched originally on Euronext but listed on the London Stock Exchange in the depths of the financial crisis, on 30/06/2009. Along with a few peers, NBPE helped democratise private equity, allowing thousands of ordinary investors to get access to this exciting and well-performing asset class.

Listed private equity funds are typically split between two different strategies: specialist single manager direct investors and highly diversified fund of funds.

NBPE started out life as a fund of funds vehicle, with the portfolio made up of 76% limited partner (LP) investments in externally managed funds. LPs are essentially the people who invest in private equity funds managed by what's called a general partner.

This means that just over three-quarters of the investments that NBPE made were in private equity funds. The rest of the portfolio consisted of direct private equity investments made by Neuberger Berman alongside co-investment partners.

The strategy evolved swiftly though, and NBPE stopped making new third-party investments into private equity funds in 2011 and ceased making new debt investments in 2018.

The fund of funds model gave NBPE shareholders the advantage of having access to leading private equity managers as well as hundreds of underlying privately owned companies within funds normally reserved for those who can invest a minimum of $2 million to $5 million.

That benefit, however, came, quite literally, at a cost. NBPE had to pay fees to the private equity managers for each of the funds it invested in, diluting some of its gains. Fund-of-funds often pay two layers of management and performance fees on a proportion of their investments, typically 1.5% to 2% of committed capital and typically a carried interest fee of 20% of gains over an 8% hurdle.

For the past six years, all new investments made by NBPE have been direct co-investments. Today, these investments account for 97% of the NBPE portfolio. This gives the NBPE managers Peter von Lehe and Paul Daggett more control over the make-up of the portfolio and means extra fees aren't due to third parties. As of 31/12/2023, NBPE paid no management fees or carried interest to third parties on 98% of the direct equity portfolio.

Co-investing directly alongside leading private equity managers provides direct exposure to private companies and allows NBPE to build a portfolio leveraging the strength of Neuberger Berman's private markets platform.

NBPE is managed by NB Alternative Advisers (NBAA), the private equity arm of Neuberger Berman, which has more than 35 years of experience and $115 billion in assets under management, as of 31/03/2024.

Though resource-intensive compared to the fund of funds approach, the direct co-investment approach enables the NB team to be more actively involved in the due diligence and investment selection process, allowing them to build a diversified, high-quality portfolio of direct private equity co-investments.

It also means that NBPE can be a direct investor, without committing to funds, which means it has extremely low unfunded commitments today. For investors, NBPE bridges the gap, allowing investors direct access to leading private equity managers, on a no additional fee or carry basis.

Co-investment also offers benefits such as enhanced capital efficiency and greater transparency, fostering a clear understanding of the portfolio construction and underlying company details.

This culminates in NBPE's portfolio being confined to the highest conviction opportunities from Neuberger Berman's considerable deal flow (in the past three years alone, NBAA has directed more than $30 billion into private markets investments).

Paul makes the point that the direct co-investment strategy allows NBPE to invest alongside a wide selection of top-tier private equity managers while also being highly selective and able to control the pace of investment activity.

It results in a portfolio built from the bottom-up, investment by investment, owning high-quality companies with some combination of resilient business models, high barriers to entry, and recurring revenue streams.

Since 2009, NBPE's top 15 equity investments have returned a combined 3 times, with $278 million invested and $563 million of value appreciation including unrealised value, to the end of May 2024.

NBPE's 15-year record shows the benefit of the direct co-investment model of listed private equity, while highlighting the ability investment companies have to be nimble, move with the times and tilt the odds in the direction of shareholders, which NBPE undoubtedly does.

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