Thrift shopping

NBPE's 2024 vintage is off to a strong start...

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Investors understandably find it difficult to navigate choppy waters in markets, but often some of the best private equity (PE) returns come from investments made in times of market volatility and stress.

This is because PE is an active asset class, and PE managers can directly engage with and control the companies they invest in. This level of influence and ability to take action quickly is particularly valuable in times of stress, dislocation and volatility.

Private equity managers have had to negotiate myriad headwinds over the past few years, leading to lower short-term net asset value (NAV) returns. There are a few reasons for this, most notably rising interest rates and economic and geopolitical uncertainty.

Indeed, NAV returns over the past three years from listed private equity investment companies have been subdued compared with longer-term returns. The average annualised three-year return from the Morningstar Private Equity ex 3i peer group to 30/06/2025 was 1.9%, versus the average annualised five-year return of c. 8.7% and 10-year return of c. 8.9%.

Discounts have widened at the same time, leading many listed private equity fund boards to take radical action.

The reaction of listed private equity investment company managers and boards matters in times like this, in our view. When discounts remain persistently wide, capital allocation decisions must be carefully considered. Investment trusts' management and boards must carefully weigh up the pros and cons of any potential new investment against alternative uses of capital, namely buying back their own shares.

Some will argue that if a trust's shares are on a wide discount, the latter option should be exhausted before the former can be considered. On the flip side, some of the best investments are made in times of market volatility and stress.

We've been impressed by the line that **NB Private Equity Partners (NBPE)** has trodden between making new investments and buying back shares. NBPE's board announced in February 2025 that it would reserve $120 million for share buybacks over the next three years. However, the board does believe that performance is the main determinant of discounts and has said it would be opportunistic with its use of buybacks, preferring the dividend as the main way to return capital to shareholders. NBPE has returned $360 million via dividends over the past 10-plus years through 31/12/2024.

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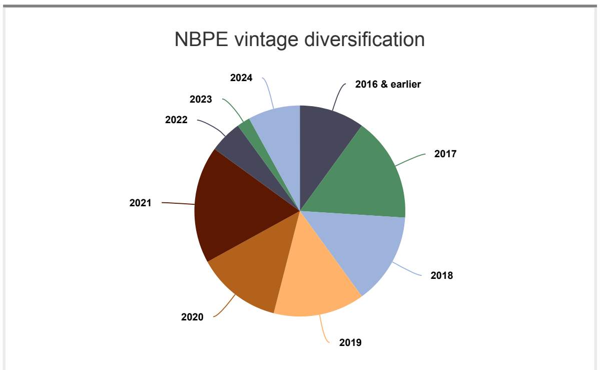
With respect to making new investments, NBPE's board has previously stated that vintage diversification remains a key part of the framework used for considering buybacks. We think this is right: portfolios shouldn't only be diversified by geography, sector and sponsor; they should also have good vintage diversification .

Fig.1: Portfolio Breakdown By Vintage



Source: NBPE As at 31/03/2025

To this end, NBPE invested c. $93 million in four new investments in 2024. We'll first note that these investments are all attractive, long-term secular growth opportunities in growing end-markets:

Benecon is a company in the health insurance sector; FDH Aero is a distributor of parts for the aerospace and defence industry; Mariner is a wealth management firm; and Zeus is a medical device company.

The investments also increased sponsor diversification, introducing four new lead sponsors to NBPE's portfolio. TA Associates, EQT, Audax Private Equity and Leonard Green & Partners are all well-known, high-quality private equity managers with a compelling value proposition for these portfolio companies.

For now, the performance of these new additions is more than justifying NBPE's decision to prioritise them over share buybacks, in our view. We understand that these investments are off to a strong start, with NBPE's 2024 vintage valued at a 1.1x gross multiple of capital, having already generated a 22% IRR on a combined basis as of 31/12/2024.

The weighted average holding period of these investments is just 0.7 years, and it's no surprise that the board is excited about the prospects for each of these businesses, which are in the early days of their value creation journey.

Despite being in their formative years, their weighted average last 12 months (LTM) revenue was 17.2% and their LTM EBITDA growth was 28.1%. For now, they are excluded from the overall portfolio growth metrics, but we look forward to seeing their progress in the coming quarters as their private equity sponsors execute their strategic and operational plans.

We'll also point out that two of the four investments are held through structured securities senior in the capital structure, which offers downside protection through minimum liquidation or return thresholds.

NBPE is mid-market focused, which is akin to mid-caps in the listed equity world, as opposed to large- and small-caps, providing a few further benefits. One of these advantages is that it gives the trust more than one exit route, meaning NBPE isn't overly reliant on a buoyant IPO market. Sales to strategic buyers and other private equity firms tend to be more popular realisation routes.

It should also be noted that NBPE is in a strong position for when realisations do start to pick up, thanks to its high-quality, mature portfolio of 5.4 years. In fact, year-to-date, NBPE has already received $53 million with a further $22 million of proceeds expected in the coming months.

As a reminder, 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. The early success of NBPE's 2024 vintage shows the benefits of its co-investment model, as well as its healthy balance sheet.

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. The fact that NB decided to put cash to work last year shows confidence in the new additions to the portfolio, which sets NBPE up for the future.

In our view, share buybacks, while an important capital allocation tool, are not the silver bullet many believe them to be. They must be weighed up against potential new investments and, where the returns from the latter look more accretive to NAV than the former, new investments can be prioritised.

There are plenty of other levers to be pulled when considering narrowing the discount, including focusing on investor relations. Perhaps the changes to KID disclosures would help, too. Ultimately, though, we think it is continued strong relative NAV performance that will help to sustainably narrow the discount.

If NBPE's 2024 vintage can help to bolster performance, alongside improving sentiment as the IPO window reopens and the interest rate cutting cycle continues, we think NBPE's shares stand out as compelling value for adventurous, long-term investors on a c. 29% discount to NAV.

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