

## MONTHLY REPORT DECEMBER 2020

# BARWON GLOBAL LISTED PRIVATE EQUITY FUND

Barwon Investment Partners is an investment management company specialising in private equity and real estate.

**Net Performance at 31 December 2020<sup>1</sup>**

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	10 Years p.a.	ITD p.a. <sup>2</sup>
<b>Net Return<sup>3</sup></b>	3.8%	19.7%	8.5%	9.7%	12.3%	12.5%	6.5%

1. A\$ domiciled unit trust. The Fund hedges foreign currency exposures

2. Inception date is 01 June 2007

3. Returns are after management fees, performance fees, and other fund expenses

**Unit Price as at 31 December 2020**

<b>NAV Price</b>	0.8107
<b>Entry Price</b>	0.8131
<b>Exit Price</b>	0.8083

The Barwon Global Listed Private Equity Fund's (Fund) net return for the month of December 2020 was 3.8%, and over the 10 years ended 31 December 2020 the Fund has returned 12.5% p.a.

**Market Commentary**

Contributors over the month included PQ Group Holdings Inc (USD +26.8%), 3i Group plc (GBP +9.9%), Blackstone Group Inc (USD +8.8%) and KKR & Co Inc (USD +6.8%). There were two detractors to performance in December: SolarWinds Corp (USD -34.7%) and Brait SE (ZAR -10.1%).

As we head in to 2021, listed private equity funds are on track to have delivered robust double-digit NAV growth for 2020, bouncing back from steep declines of 10%-20% at the trough during Q1 of 2020. The pandemic has and continues to impact businesses unevenly across the global economy. The Fund entered the volatile period in February with limited exposure to first-order impacted investments. Panicked and indiscriminate selling was widespread in listed PE in late February and March, again highlighting the inefficiency of the sector. There were instances of little market differentiation between heavily impacted and relatively resilient stocks. We were able to capitalise on the ensuing market dislocation to further reduce impacted exposure and buy into attractive oversold situations. In fact, portfolio turnover in 2020 was the highest since the Fund's inception.

In terms of private equity deal activity, sponsors were initially focused on providing working capital support for existing investments. Deal activity resumed as markets gradually stabilized. Private equity transactions in 2H'20 have been concentrated in more resilient healthcare and

software/technology sectors. Encouragingly, we have observed recent exits of investments by our LPE holdings at material uplifts to carrying value. For example, HgCapital Trust, a leading UK/European technology focused investor, completed 6 realisations over the period at an average 36% above their last reported valuation. The uplifts in valuation upon exit serve as an encouraging datapoint in validating private asset valuations.

The year ended ahead of any expectations set when the pandemic first broke out. Many companies quickly cut costs to adapt to COVID-19 business conditions, and benefitted from improved margins as the economy re-opened. Record corporate debt issuance and support from PE sponsors with ample dry powder has left many businesses better capitalised today than immediately pre-COVID-19. While there is still considerable uncertainty in the short term, there is a path to strong growth in 2021 supported by pent-up demand from consumers.

Alternative asset managers demonstrated their resilience once again in delivering stable management fee revenue over the period. They have also continued to raise capital amidst not only market dislocation but lockdowns preventing in-person meetings. Private credit strategies have been particularly in demand. Ares Management for example raised US\$8.2bn for their fifth European direct lending fund, which started fundraising amidst the lockdown in May. Blackstone closed on their sixth real estate debt fund at \$8bn. The US listed AAMs traded relatively well through 2020, reflecting their resilient earnings and very good underlying fund performance. The Fund materially increased its exposure to UK-listed manager Intermediate Capital Group after it sold off sharply and was able to benefit greatly from its rebound.

During the year, the Fund doubled its holdings in Business Development Companies (BDCs) which sold off heavily in February and March. BDCs are listed private loan funds which lend to US middle market companies. Being senior to equity in the capital structure, and with solid balance sheet funding, the extent to which BDCs sold off in March surprised us. Average discounts widened to 60%, extreme levels not seen since the GFC. Private loan values declined 5%-10% in the quarter to March 31. As economies have reopened, unrealised losses were reversed, and actual defaults have remained limited to date. The BDC sector began to recover but still trades at close to a 10% discount to NAV, compared to trading at par at the end of 2019.

We believe there are further good returns to be made through both book values recovering and discount capture. The long-term historical credit performance of BDCs does not support fears of inferior credit quality. Moreover, when we look at the credit fundamentals of BDC portfolios, with predominantly senior secured loans and greater levels of equity contribution in recent PE LBOs, we believe there is now a greater buffer against losses when compared to historical periods.

## Underlying Investment Exposures on a Look-Through Basis

Investment Classification		Vintage Year		Geographic Exposure	
Buyouts	31%	Pre-2015	26%	North America	68%
PE Backed	6%	2015	10%	Europe	26%
Alternative Asset Manager	29%	2016	16%	Other	6%
Private Debt	23%	2017	14%	Total	100%
Liquidity	11%	2018	21%		
Total	100%	2019	12%		
		2020	1%		
		Total	100%		

## 5 Largest Holdings by Weight

Company	Type
KKR & Co Inc	Alternative Asset Manager
Blackstone Group Inc	Alternative Asset Manager
Ares Capital Corp	Private Debt
Golub Capital BDC Inc	Private Debt
Hercules Capital Inc	Private Debt

## Key Information

The Barwon Global Listed Private Equity Fund is an Australian domiciled unit trust offering daily liquidity. Foreign currency exposures are substantially hedged into Australian dollars.

<b>Trustee &amp; Manager</b>	Barwon Investment Partners
<b>Applications &amp; Withdrawals</b>	Daily
<b>Unit Prices</b>	Daily
<b>Minimum Investment</b>	\$50,000
<b>Buy-Sell Spread</b>	0.30%
<b>Distributions</b>	Semi-annual
<b>Management Fee</b>	0.65%
<b>Performance Fee</b>	15% in excess of 12% hurdle
<b>Bloomberg Fund Code</b>	BAGLLPE AU Equity
<b>APIR Code</b>	BAR0001AU

Barwon also manages the Pareturn Barwon Listed Private Equity Fund, a Luxembourg-domiciled UCITS Fund and the Barwon Global High Income Fund, an Australian-domiciled unit trust.



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