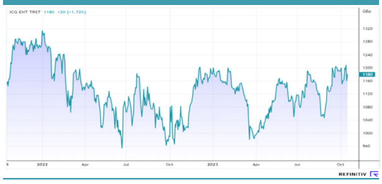
HARDMAN&CO.

Closed End Investment Funds



Source: Refinitiv

Market data

EPIC/TKR	**ICGT**
Price (p)	**1,160**
12m high (p)	1,224
12m low (p)	944
Shares (m)	67.51
Mkt cap (£m)	783
NAV p/sh (Jul'23, p)	1,904
Disc. to NAV (%)	-39
Country/Ccy	UK/GBP
Market	Premium equity closed-ended investment funds

Description

ICG Enterprise Trust (ICGT) is a listed private equity (PE) investor providing shareholders with access to an attractive portfolio of profitable, cash-generative, private-market investments, with the added benefit of daily liquidity. It invests in companies managed by ICG and other leading PE managers, directly and through funds. It strikes a balance between concentration and diversification, risk and reward.

Company information

Chair	Jane Tufnell
Aud. Cttee. Chr.	Alastair Bruce
NEDs	David Warnock, Adiba Ighodaro, Janine Nicholls, Gerhard Fusenig
Inv. Mgrs.	Oliver Gardey, Colm Walsh
Contact	Christopher Hunt +44 (0)203 545 2000 www.icg-enterprise.co.uk

Key shareholders

None over 3%

Diary

Feb'24	3Q results

Analyst

Mark Thomas mt@hardmanandco.com

Disclosure note: the relevant analyst is a shareholder in ICGT Enterprise Trust.

ICG ENTERPRISE TRUST PLC

1HFY'24: defensive growth/disciplined approach

ICGT's *interim results to July 2023* confirmed the robust nature of its strategy and portfolio with LTM NAV per share total return of 4.1%. The 1HFY'24 portfolio return, on a constant currency basis, was 4.6% and the long-term, ongoing buyback programme enhanced NAV with an average discount on purchase of over 40%. The minimum of 32p expected dividend for FY'24 was reconfirmed. Realisations were £94m, new investments £64m and new commitments £110m; activity that is slower than the recent past but still ongoing. Exits were at an average 18% premium to carrying value, demonstrating the conservative approach to accounting. ICGT's defensive growth is delivering in challenging markets.

- **ICGT's investment approach:** We detail below how ICGT's defensive growth strategy works in practice and why this has delivered long-term EBITDA outperformance. Consistency in performance greatly enhances compounding effects. This has led to share price outperformance (five-year TSR 15.2% annualised).

- **Interest rate sensitivity:** With below-PE average gearing (4.7x debt/EBITDA), over half the portfolio fixed rate debt (most not refinancing until 2026/later), and opportunities for bolt-on deals and passing on price increases, investee companies appear relatively well-positioned for a higher-rate environment.

- **Valuation:** ICGT's NAV valuations are conservative, demonstrated by continued realisations above reported book values. The ratings are undemanding. The 39% discount to NAV is anomalous, we believe, with defensive, market-beating returns, and twice the levels seen pre-COVID-19. The 2024E yield is 2.8%.

- **Risks:** PE is an above-average cost model, but post-expense returns have consistently beaten public markets. Actual experience has been of continued NAV outperformance in economic downturns, but sentiment may be adverse. ICGT's permanent capital structure is right for unquoted/illiquid assets.

- **Investment summary:** ICGT has consistently generated superior returns, by adding value in an attractive market, having a strategic focus on defensive growth and leveraging synergies from being part of ICG since 2016. Valuations appear conservative, and governance is strong. ICGT focuses on delivering resilient, risk-adjusted returns, and balancing risk and reward. The risks are primarily sentiment-driven on costs, cyclicality and the underlying assets' liquidity. A 39% discount to NAV appears anomalous with ICGT's performance.

Financial summary and valuation

Year-end Jan (£000)	2021	2022	2023	2024E	2025E
Total income	6,594	5,503	2,271	6,792	7,101
Realised gains	(17,088)	1,968	9,311	33,727	35,270
Unrealised gains	201,159	238,062	175,890	50,000	211,620
Investment manager fees	(10,728)	(13,417)	(17,013)	(14,837)	(16,559)
Other expenses	(4,070)	(4,646)	(1,956)	(1,762)	(1,588)
Rtn. on ord. act. pre-tax	175,068	226,490	164,525	66,920	226,844
NAV per share (p)	1,384	1,690	1,903	1,978	2,286
NAV total return	22%	25%	15%	7%	19%
S/P prem./disc. (-) to NAV	-31%	-26%	-43%	-41%	-49%
Investments (£m)	908	1,124	1,349	1,411	1,678
Dividend per share (p)	24	27	30	33	36

Source: Hardman & Co Research

Disclaimer

The information contained herein and on the pages that follow does not constitute an offer to sell, or the solicitation of an offer to acquire or subscribe for, any securities in any jurisdiction where such an offer or solicitation is unlawful or would impose any unfulfilled registration, qualification, publication or approval requirements on Hardman and Co (the "Company") or its affiliates or agents. Equity securities in the ICG Enterprise Trust have not been and will not be registered under the applicable securities laws of the United States, Australia, Canada, Japan or South Africa (each an "Excluded Jurisdiction"). The equity securities in ICG Enterprise Trust referred to herein and on the pages that follow may not be offered or sold within an Excluded Jurisdiction, or to any U.S. person ("U.S. Person") as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act"), or to any national, resident or citizen of an Excluded Jurisdiction.

The promotion of ICG Enterprise Trust and the distribution of the materials contained in the report in the United Kingdom are restricted by law. Accordingly, they should only be accessed by, and are directed only at:

- persons outside the United Kingdom to whom it is lawful to communicate to; or
- persons having professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order"); or
- high-net-worth companies, unincorporated associations and partnerships and trustees of high-value trusts as described in Article 49(2) of the Order, provided that in each case the report and any materials in it are only directed at persons who are "qualified investors" as defined in article 2(1)(e) of Directive 2003/71/EC (as amended) (the "Prospectus Directive") ("Relevant Persons"). Accordingly, this report does not constitute, and does not contain the information required to be contained in, a prospectus as required under the Prospectus Directive.

The information on the pages that follow may contain forward-looking statements. Any statement other than a statement of historical fact is a forward-looking statement. Actual results may differ materially from those expressed or implied by any forward-looking statement. The Company does not undertake any obligation to update or revise any forward-looking statements. You should not place undue reliance on any forward-looking statement, which speaks only as of the date of its issuance.

Your reading of this report is governed by the above terms. The Company may change these terms. The changes will be posted on the website. Your access to our website is governed by the version of these terms then in force.

Should you continue reading this report, you represent, warrant and agree that you (1) have read and understood these terms and the other information set out above, (2) agree to be bound by the terms, (3) do not have a registered address in, and are not resident or located in, an Excluded Jurisdiction (or, if you do, you will not seek to make any investment in the securities of the ICG Enterprise Trust), (4) are not a U.S. Person or a national, resident or citizen of an Excluded Jurisdiction (or, if you are, you will not seek to make any investment in the securities of ICG Enterprise Trust), (5) are permitted under applicable laws and regulations to receive the information contained in the pages that follow, and (6) agree that you will not transmit or otherwise send any information contained in this website to any person in the United States or to any U.S. Person for the purpose of that person considering an investment in the securities of ICG Enterprise Trust, or to any publication with a general circulation in the United States.

1HFY'24 results summary

Five-year NAV annualised total return 15.2%.

The portfolio return on a local currency basis over the past 12 months (LTM) was 4.6% (sterling return 1.6%). This follows 14 consecutive years of double-digit local currency portfolio growth. The 1HFY'24 LTM NAV total return per share was 4.1%, below the five-year NAV per share total return of 15.2% (UK whole market 3.4%).

Continuing to realise significant uplifts to carrying value, despite market conditions

Total proceeds during the period were £94m (FY'23 £252m, FY'22 £343m). There were 17 full exits in the half year, at an average uplift to carrying value of 17.7% (still around half of the FY'13-23 average of 35%, despite market conditions), with a 4.0x multiple to cost (well above the long-run average of 2.3x). The realisation uplift and returns profile indicate both the inherent conservatism in the portfolio valuations and the company's ability to identify attractive investments to generate strong returns.

Investing in today, committing to tomorrow

£64m of total new investments were made (FY'23 £287m, FY'22 £304m), of which £39m, 61%, went into primary funds and £18m into direct investments (29%). Secondary investments totalled £6.5m. The key messages are i) ICGT continues to see attractive new opportunities (new commitments totalled £110m), and ii) the fall in direct and secondary investments as a proportion of the total new investments reflects the flexibility in ICGT's model to control cash in an uncertain environment.

Robust balance sheet

At end-January, ICGT had £159m of available liquidity, including £24m of cash and a £135m undrawn revolving credit facility. Undrawn commitments at the end of July were £549m (up from £497m end-January), £119m of which were in funds outside their investment period, and so unlikely to be drawn. Over-commitment at the end of July 2023 was thus 30% of NAV, up from 25% at the end of January 2023. In previous notes, we have explained why commitments, some of which may not be drawn at all or not for several years, may be expected to exceed current liquidity, and why a degree of over-commitment is sensible balance sheet management.

Defensive growth delivers consistent returns

"Defensive growth" is core to ICGT, and it has delivered the consistency of returns evident in ICGT's performance over the long term. When the whole UK market saw falling EBITDA (e.g., in FY'16 and FY'21), ICGT's top 30 companies still delivered double-digit EBITDA growth. In 1HFY'24, the top 30 companies delivered 14.7% EBITDA growth, with revenue growth up 14.9%, despite market pressures. In looking at an uncertain macro environment, we note i) that ICGT invests in mid-market, defensive sectors and that market statistics showing transactions slowing were biased by large technology deals, ii) that realisations were continuing, iii) that the lower-than-PE average leverage reflected a conservative choice of managers, who did not rely on financial engineering (profitability and cash generation are attractive, "defensive growth" characteristics for ICGT), and iv) the opportunities in the secondary market, where the imbalance of buyers and sellers meant that high-quality portfolios could be bought at significant discounts to par, and where ICGT could conduct full due diligence on the underlying investments. We examined the resilience of the portfolio in detail in our note, *1H'23 and beyond: safe harbour in the storm*, published on 10 November 2022.

Valuations are conservative

We believe the NAV valuation is conservative, noting i) uplifts on exits (18% 1HFY'24, 24% in FY'23), ii) modest valuation ratings – EV/EBITDA of 14.4x and a low PEG of 0.85x (covering two thirds of the portfolio), iii) revenue and EBITDA growth (15.6% and 16.9%, respectively, covering two thirds of the portfolio), iv) there is no incentive for GPs to inflate valuations, and v) independent basis of valuations.

Key themes

Consistent value created from defensive growth strategy

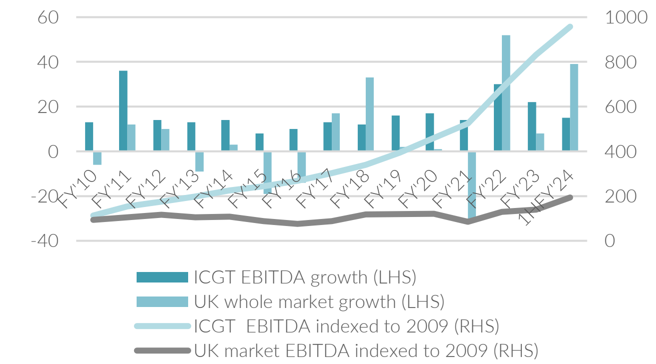
Focus on growing, profitable businesses and well-established managers

The focus of ICGT's portfolio is on buyouts of businesses in mature markets that have defensive growth characteristics. It chooses direct investments and managers that also align to this strategy – and the maturity and profitability of these businesses are really central (these are not venture capital or early-stage business investments). The sector exposure and the maturity of the businesses in which ICGT invests have, in the past, and should, in the future, position the company well relative to the market in delivering resilient returns.

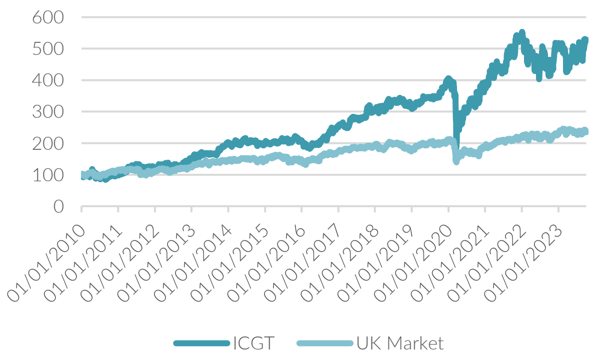
Delivered 2.5x market EBITDA growth over long term. Crucially, consistency of performance greatly enhanced compounding.

The left-hand chart below shows how this strategy feeds through to not only superior EBITDA growth (average since 2010 ca.16.5%, against UK market 6.6%) but also, crucially, consistently positive growth. The latter is important as it has material compounding benefits. A theoretical ICGT company held since 2010 would have 9.5x its starting EBITDA, against a whole UK market average of ca2x. The right-hand chart below shows the total return for ICGT shares and the UK whole market over the same period. Despite the discount being well-above average, ICGT has seen a total return of 5.3x, against 2.3x for the whole UK market.

ICGT top 30 and UK whole market EBITDA growth (% LHS) and indexed to 2009 at 100



ICGT and whole market total return since 2009



Source: ICGT Report and Accounts, Hardman and Co Research

Defensive growth has "play book" of characteristics, which can be seen again and again across ICGT's investments…

Looking at defensive growth characteristics in more detail, these often include:

- Mature businesses that are profitable and cash-generative (unlike early-stage venture capital investments).

…and which are fundamental to consistent returns

- Leading market positions.
- Providers of mission-critical services.
- The ability to pass on price increases.
- High margins.
- Avoiding early-stage venture capital where valuations may be based off future revenue projections.

- Scalable platforms.
- Sectors or sub-sectors where the income streams are non-cyclical.
- Growth levers, such as bolt-on M&A or operational improvements.
- Strong management, with a proven track record.
- PE is a long-term investment. ICGT has, for some time, assumed that exit multiples would be lower than entry ones for its co-investments – thus building in a cushion in its deal assessments. Also, investments have had to justify themselves on earnings growth, not multiple expansion.
- With recent co-investments, ICGT has been leveraging ICG plc's expertise, and building downside protection into the structure of its deals, taking a very cautionary approach to such investments.

1HFY'24 results prove both resilient and well diversified

The 1HFY'24 continued revenue and EBITDA growth (top 30 14.9% and 14.7%, respectively) and limited margin erosion are further evidence of defensive growth in action. The more detailed disclosure on slides 17-18 of the *results presentation* gives a further insight into resilience. It is also interesting to note that the performance is consistent across the portfolio and is not concentrated within just the largest investments. Indeed, the enlarged portfolio statistics show marginally faster average revenue and EBITDA growth, at a lower rating and with less leverage.

Key portfolio metrics

	Top 30 (36.8% portfolio)	Enlarged group (66.4% portfolio)
LTM revenue growth (%)		
Average	14.9	15.6
% negative	12.6	13.0
% >30%	12.0	13.0
LTM EBITDA growth (%)		
Average	14.7	16.9
% negative	20.1	23.1
% >30%	17.4	20.5
EBITDA margin (%)		
Average	27.3	n/d
% negative	0.0	n/d
% >30%	14,6	n/d
EV/EBITDA		
Average (x)	14.7	14.4
<10x (%)	8.8	14.1
>20x (%)	9.5	10.1
Net debt/EBITDA		
Average (x)	4.8	4.7
<2x (%)	20.8	15.9
>6x (%)	26.9	25.6

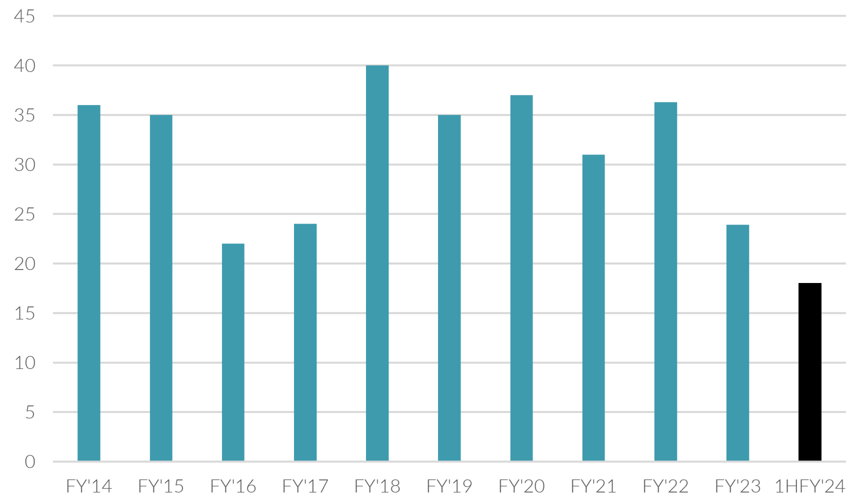
Source: ICGT Report and Accounts, Hardman & Co Research

NAV is "real" and conservative

Key point is that, after all their due diligence, buyers are willing to pay higher price than carrying value. Uplift on exit (1HFY'24 18%) indicates both conservative accounting and embedded value in portfolio.

We have explored why we believe ICGT's valuation is "real" in great detail in previous notes, and, to summarise, the key factors are listed below. In particular, we emphasise the uplift on exit. The chart below shows ICGT's uplift on exit history since FY'14. In 1HFY'24 (across 17 full exits), it was still 17.7%, around half of the long-run average level, despite the challenging conditions. The multiple of cost on exit, at 4x, was around twice the long-run average, but this can be very period- and stock-specific. Of note, of the 17 exits, only one was below cost (sold at 0.8x carrying value). On exit, material due diligence is triggered, be it by a trade buyer, another PE fund, or on IPO, after which buyers are still willing to pay a premium to the value at which the investment is recognised in ICGT's books. While part of this may reflect deal synergies, the long-run average of 35%, in our view, reflects more than this, and gives us confidence that the underlying valuation approach is conservative. These exit uplifts reflect an embedded value within the portfolio, and have been realised, even in the challenging current market conditions.

Uplift in value on realisation against latest accounting book value, FY'14-1HFY'24 (%)



Source: ICGT Report and Accounts, Hardman & Co Research

Other factors include conservative culture, no incentive to over-value, low mix-adjusted valuation multiples, internal and external verification, low exposure to most volatile subsectors, and large director holdings

The other key factors, allowing for confidence in the current NAV, are:

- Conservative corporate culture.
- There is no incentive for the GPs to over-inflate valuations.
- Valuation multiples, and resulting PEG ratios, are relatively low, bearing in mind the sector mix and companies showing similar, sustained EBITDA growth.
- Double internal and external verification processes, with reviews by both the GP and ICGT. If ICGT feels the GP valuation is invalid, it will adjust it to what ICGT sees as a more realistic level, but it only ever adjusts down. This is, we understand, a rare event – ICGT would not choose to partner with overly optimistic GPs.
- As detailed in the section on defensive growth above, ICGT's focus is on mature, well-established businesses, and its exposure to the unprofitable, venture stage, which has seen the most valuation volatility, is negligible. The technology businesses on which ICGT focuses are typically high-quality software and business infrastructure companies that provide essential "need-to-have" products, such as accounting and legal software.

No evidence of selective disposals

In our FY'23 results note, we highlighted why we did not believe there had been any unusually selective disposals, noting that i) a core part of the PE model is long-term investment, and the timing of exits is always driven by managers trying to optimise returns. PE managers can choose when they want to exit, and are under no pressure to sell, and ii) if there were a material shift in the quality of the book, one might expect this to be reflected in duration, sector concentrations, revenue and EBITDA metrics, all of which are largely stable.

Interest rate sensitivity manageable

Key message: rising interest rates among just one of many variables PE managers face over long term

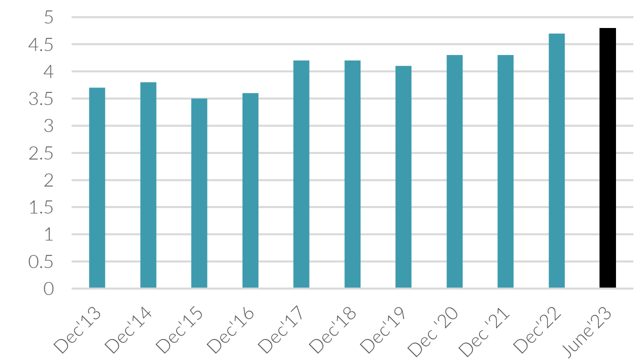
Bottom line: ICGT, and we, believe most of its partner GPs' target returns are unchanged

The rising and high interest rate environment changes multiple aspects of PE's business, including: the effect on investee companies; overall PE activity, including exits; and the potential returns to debt and equity holders. Our key takeaways are i) ICGT's underlying company leverage is around two thirds that of the PE market as a whole (unsurprising, given ICGT's conservative culture and tilt towards smaller/mid-sized buyouts, which use less leverage), ii) exit activity may be slow for a period, but the value creation in the underlying companies remains strong and ongoing, as evidenced by EBITDA growth, and iii) most PE managers have not changed target returns, and they have a number of tools to compensate for any incremental financing cost. Indeed, ICGT itself has not changed its target return on new investments/commitments.

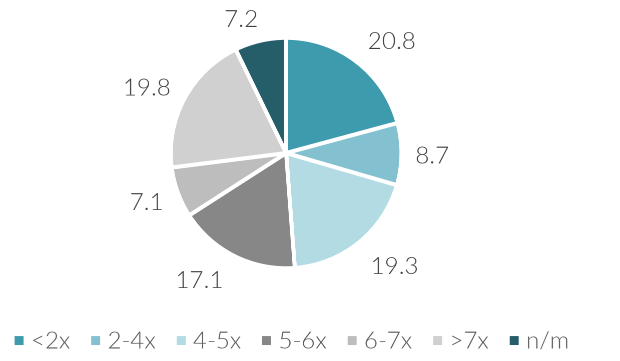
Impact on investee companies

The left-hand chart below shows the level of indebtedness at investee companies in the portfolio, and how this has evolved since December 2013 to its current level of 4.8x (top 30, 4.7x (enlarged portfolio). Leverage has not materially changed over the past five years. The right-hand chart shows the distribution of leverage, with nearly as many companies having under 2x EBITDA gearings as 7x (the PE market average).

Average debt/EBITDA in top 30 holdings (x)



Percentage mix of debt/EBITDA (%)



Source: ICGT Report and Accounts, Hardman and Co Research

We also make the following observations:

Well-financed PE backers invaluable

- Access to a well-capitalised PE backer is invaluable in surviving downturns for businesses with good fundamentals but facing short-term cashflow issues. Getting equity injections may not be available, or as quickly delivered, for standalone competitors or listed companies, compared with PE-backed ones.

Many PE businesses can increase prices, and so revenue, at times of high inflation (main driver to higher interest rates)

This is evidenced by EBITDA growth

- Managing interest costs is just part of the overall management of the business by PE managers While individual portfolio companies may face specific strains, across the whole book, there is often pricing power to pass on inflation-related costs (including higher financing costs). Many investee companies provide mission-critical services, have very strong market positions, and are often disruptors to industries offering a low-cost solution, compared with incumbents. In hard numbers, this is reflected in the continued outperformance at the revenue and EBITDA lines, noted earlier.

Already two years into current US increase cycle

- The US benchmark two- and five-year rates have evolved over the past 10 years and the rising rate environment is not new. It is something ICGT and PE managers investment teams have been dealing with for several years.

Cov-lite documentation, often negotiated by PE backers, reduces risk of default

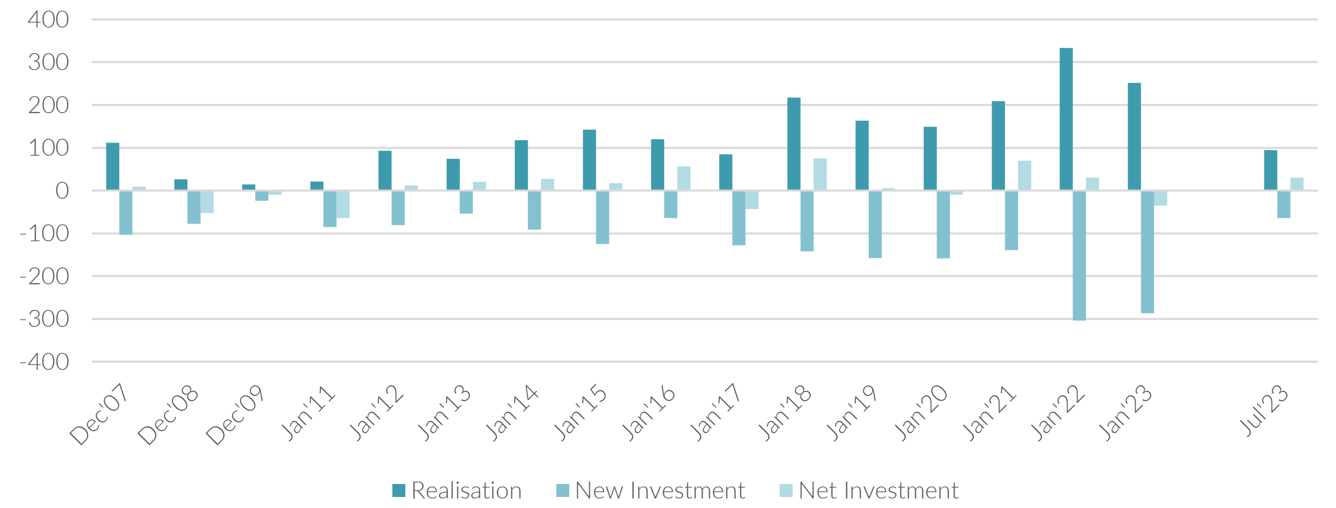
- Many default events are likely to be deferred, given the prevalence of cov-lite documentation and the fact that having a PE backer means that an underlying company is much more likely to get access to such documentation. Such delays may mean that a company can survive through challenging times into a recovery in a way that would be unlikely without cov-lite documentation.

Impact on PE activity

Deals are still being done for quality companies, and uncertainty creates opportunities, as well as threats

Some investors appear concerned that higher interest rates mean that PE managers will be unable to get the debt they require to complete deals at acceptable pricing levels, which would slow down ICGT's exit opportunities and the expected valuation uplifts on exit, or limit the company's ability to make new investments at acceptable returns. The chart below shows the realisation and new investments for ICGT and, as can be seen, 1HFY'24 was a quieter-than-average period. However, there is still activity and historical commitments being called will continue to see new investments being made. The £110m of new commitments made in the period will generate further cash deployment in due course.

History of realisations and drawdowns since 2007 (£m)



Source: ICGT Report and Accounts, Hardman & Co Research

Deals still being done for good-quality companies, and creating opportunities for bolt-on deals

Additionally, we note:

- In terms of any potential impact on exits, we would summarise the key takeaways from our discussions with managers across the whole PE market, regarding good-quality deals, as being that the financing terms and availability have not changed materially. Given that ICGT's sector mix and earnings growth are indicative of "good" companies, the continued exits it saw in 1HFY'24 were not surprising. There may be fewer deals than in the past, but the availability and terms of finance are not the key drivers.

- Higher interest rates reflect, and are a cause of, uncertainty, which is not good for PE activity (*inter alia*, it creates differences between the pricing expectations of buyers and sellers). Additionally, uncertainty is unhelpful for the business environment in general. However, smart PE buyers can take advantage of uncertainty, dislocation and disruption to target deals that may not otherwise be available.

Impact on PE returns

Multiple options to manage higher financing costs

PE is a long-term investment, and, as noted above, rising interest costs are just one of a great many considerations over that timescale. PE managers have been faced with higher rates for some time, and, critically, we understand that, market-wide, there has been little, if any, change in return targets, despite this higher interest burden. The interest burden may be offset by increased pricing discipline at entry, pricing power, and growth (inflation revenue driven and inorganic).

Bottom-line earnings growth vs. EBITDA growth

Key points are: no change in targets, even without mitigation impact manageable, multiple mitigation options, higher rates may see step change in earnings, but does not change long-term trend for outperformance, and gearing is focused in businesses that can afford it

We believe that some investors are concerned that the strong revenue and EBITDA shown by the average investee companies will not have dropped down to strong earnings growth because of the impact of higher interest costs. We note:

- ICGT has not lowered its target returns for any new investments/commitments.

- Specifically looking at ICGT, if we assume a 4%-5% increase in average funding costs on its average net debt to EBITDA of 4.7x (enlarged portfolio), the incremental interest cost is likely to be around 20% of EBITDA. Given multi-year hedging policies, this effect is likely to be spread through 2023-25 and further significantly reduced by mitigation such as pricing increase and bolt-on acquisitions at lower prices. Any incremental cost looks very manageable compared with average LTM EBITDA growth in 1HFY'24 of 16.9% (enlarged portfolio).

- Mitigation factors include being invested in companies with pricing power (and so ones which can pass on inflationary cost pressures). Additionally, bolt-on deals at accretive prices may be more likely in the market uncertainty.

- Excluding any mitigation, *ceteris paribus*, the impact of higher rates, even sustained ones, leads a step change in earnings, not a change in the long-term trend of value added to investee companies leading to EBITDA outperformance, which, in turn, leads to bottom-line earnings outperformance.

- In our view, the companies with the highest gearing are likely to be those with the greatest resilience, *inter alia*, through rapid franchise growth or levers to manage returns (such as inflation pricing power/opportunities for bolt-on deals). The impact on bottom line returns is very much driven by micro company considerations, not portfolio averages or macro interest rates.

Ratings

ICGT invests in established, mature, profitable and generally cash-generative businesses, ratings of which are less sensitive to rising rates than, say, venture

Ceteris paribus, one would expect a higher sustained interest rate environment to see a lower rating applied to current earnings (in essence, future returns/cashflows are being discounted at a higher rate, and so their present value is lower). This should have the greatest impact on the ratings of super growth companies for whom more of their value is in future years, as opposed to current ones. As noted above, ICGT is investing in larger, profitable, established businesses whose operations can be enhanced. It is not in the venture space, which is most exposed to the ratings impact noted above….but sector and, crucially, subsector mix are major drivers to ratings.

Other themes

Share buyback programme/capital returns

Consistent, long-term buyback programme in place

ICGT started its programme a year ago and has now bought back £10.6m of shares (1.4% of starting outstanding issued share capital) at an average discount of 40.6%, having been active on 32% of all trading days. In 1HFY'24, it was £6.5m. The key messages here are of a long-term consistent programme to return capital, showing i) confidence in the valuation, ii) accretion to NAV, iii) a disciplined approach to capital, iv) continued ongoing investment/new commitment, and v) well-balanced share trading liquidity.

Alongside progressive dividend

The buyback has accounted for a third of the capital returned to shareholders with a progressive dividend policy reconfirming the expected minimum 32p for FY'24, having paid 16p in 1HFY24 (up from 14p).

Secondary investments

ICGT Trust invests in secondaries through two distinct routes: GP-led, and LP-led, both through ICG-managed funds. This has been an area of increasing focus, as we highlighted in our note, *Spotlight on secondaries*, published on 2 March 2022. The trust also produced a *review of secondary investments*, which explains some of the market dynamics and how secondaries fit into the ICGT portfolio. Many investors have become sellers as PE has outperformed listed markets and so portfolios have become overweight PE against target mixes. This has become an attractive market to be a buyer and ICGT now has ca.18% of the portfolio in secondary investments.

Drag effect of Chewy reduced

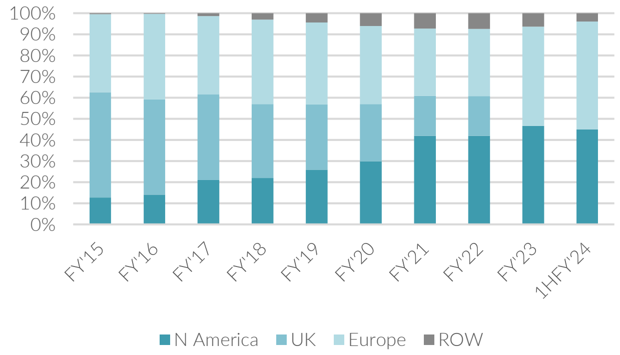
ICGT saw a drag of ca.1% of NAV in the period due to the fall in share price of its listed holding in Chewy. At the end of January 2023, Chewy represented 3.6% of the portfolio, but this had fallen to 2.7% by end-July with the share price falling from \$45.1 to \$33.9 p/sh. Since that date, the share price has fallen further to its 13 October level of \$17.0, which, if maintained, would see a further drag in 2HFY'24. Management highlights the strong realised returns on the investment. In our view, the incremental exposure from here is modest given the small proportion of the portfolio now in this name.

July 2023 portfolio overview

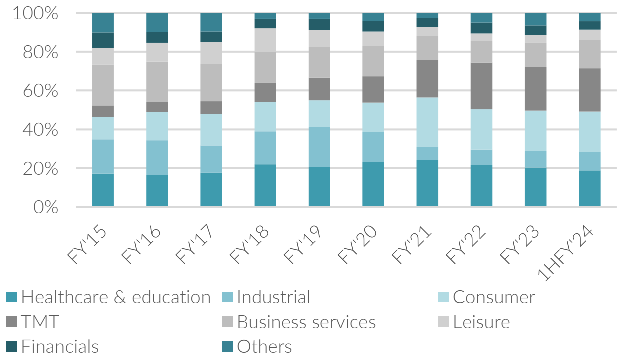
Top 30 companies account for 37% of portfolio

The top 30 companies account for 37% of the portfolio value (top 50: 46%). The portfolio is weighted towards the mid-market and large deals, which we view as more defensive than smaller deal sizes, as they benefit from stronger management teams and, often, market-leading positions.

Geographical distribution of portfolio, FY'15-1HFY'24 (%)

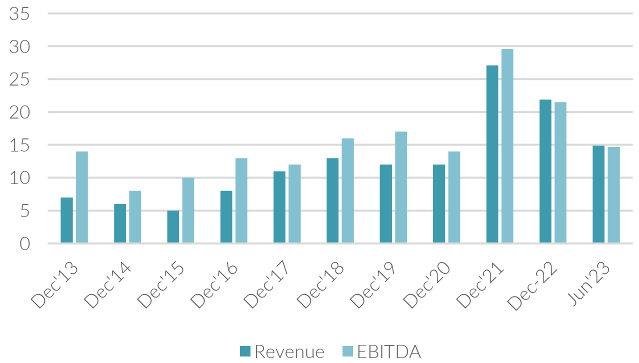


Sectoral distribution of portfolio, FY'15-1HFY'24 (%)

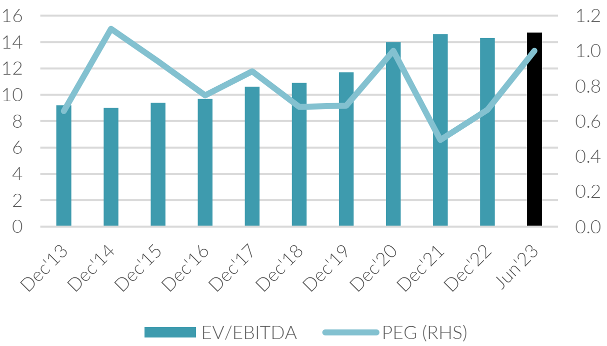


Note: UK now included in Europe, Source: ICGT Report and Accounts, Hardman and Co Research

Top 30 LTM revenue and EBITDA growth, Dec'13-Jun'23 (%)

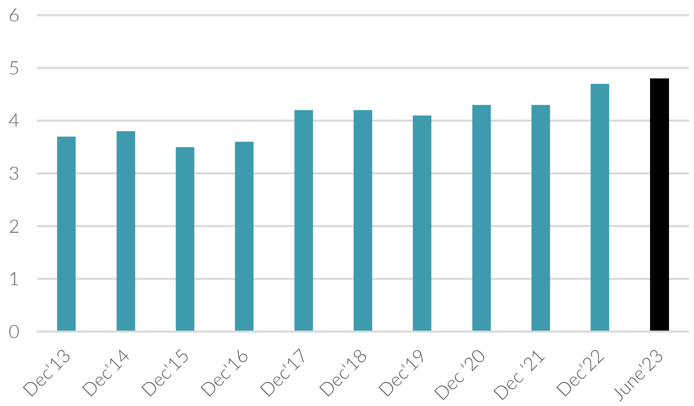


Top 30 EV/LTM EBITDA and implied PEG ratio, Dec'13-Jun'23 (x)

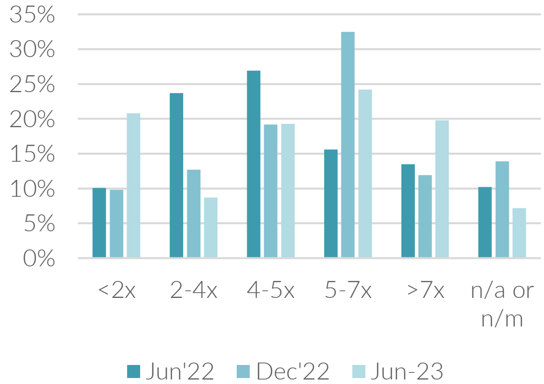


Source: ICGT Report and Accounts, Hardman & Co Research

Top 30 average net debt to LTM EBITDA, (x)

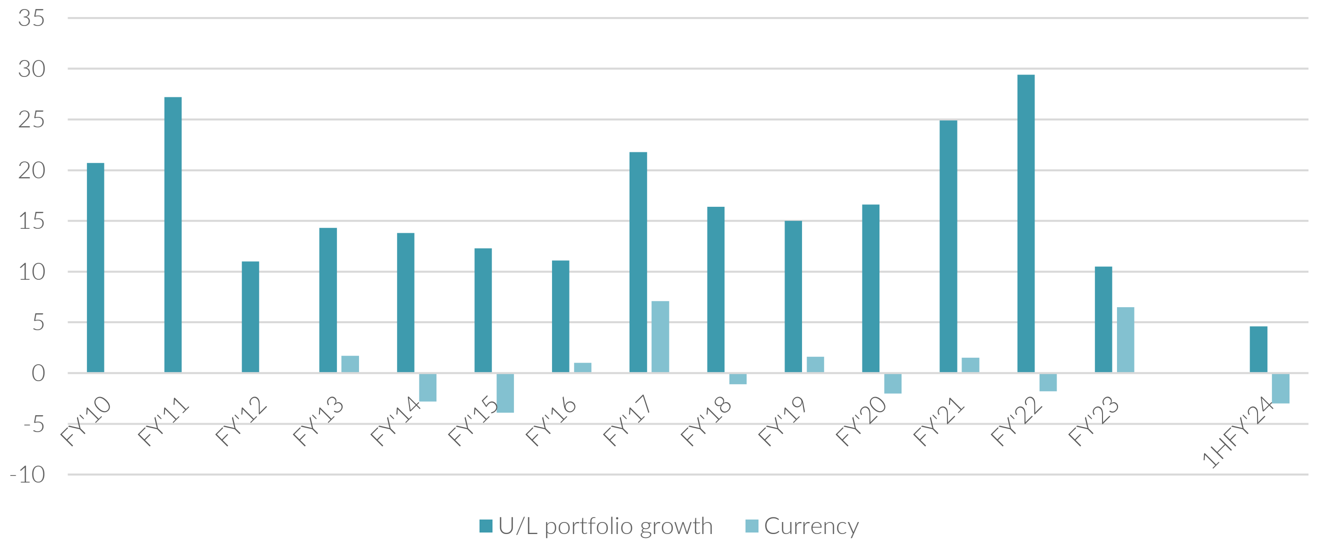


Distribution of top 30 net debt/EBITDA (%)



Source: ICGT Report and Accounts, Hardman & Co Research

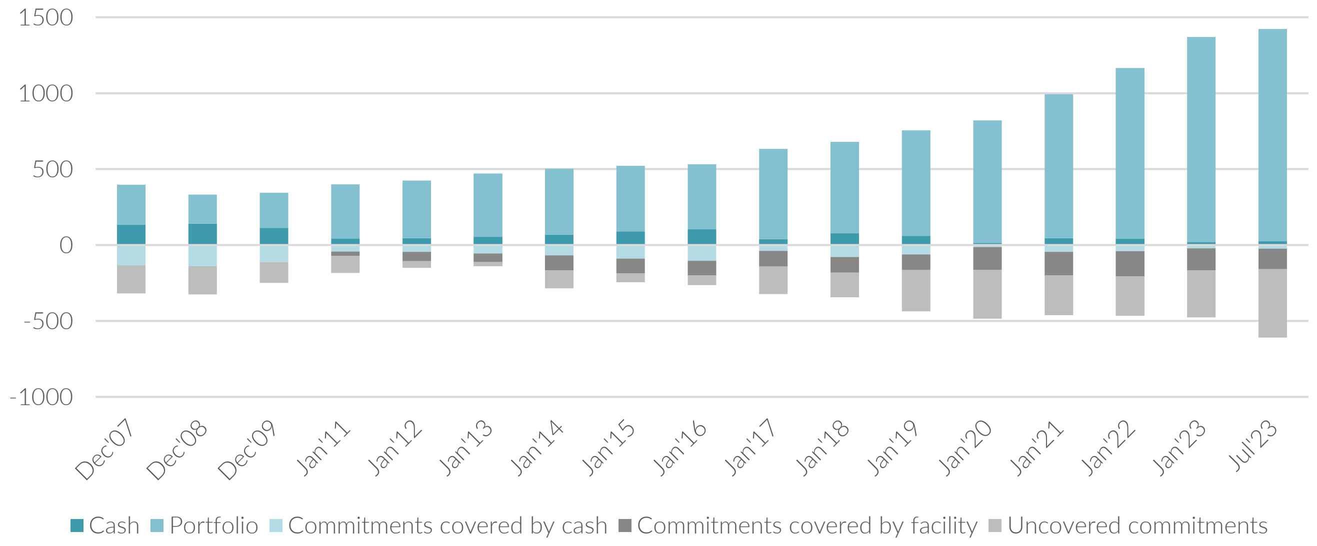
Underlying constant-currency portfolio growth, FY'13-1HFY'24 (%)



Source: ICGT Report and Accounts, Hardman & Co Research

As noted above, the gearing in ICGT is increasing with incremental new commitments. It is worth noting, though, that £119.4m of existing commitments are unlikely to be drawn, as they are outside their investment period. Additionally, the use of bridging facilities means the first material cash drawings on new commitments are likely to be 1HFY'24 and ICGT has good visibility on likely cash claims.

Balance sheet evolution since December 2007 (£m)

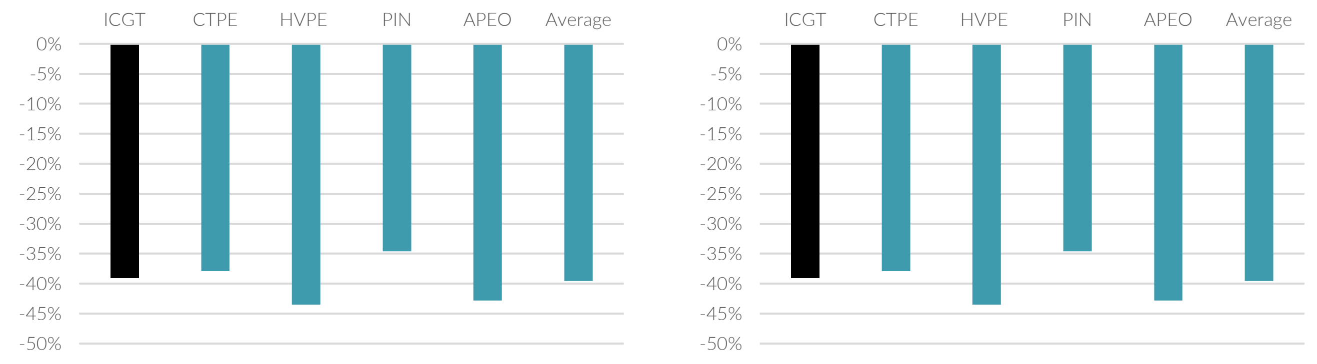


Note: Includes co-investment incentive scheme accrual commitments; Source: ICGT Report and Accounts, Hardman & Co Research

Valuation

Despite its strong absolute performance and consistent uplift to carry value on exit, ICGT trades at a discount to NAV. This is not uncommon in the PE fund-of-fund space, and ICGT's discount is in line with that of its immediate peers, noting that the NAVs for some peers are updated monthly, while, for others, the update is quarterly.

Current share price discount to NAV for immediate peers (LHS) and wider peers (RHS)



Source: Company websites, factsheets and presentations, LSE, Hardman & Co Research; priced at 13/10/2023

What could lead to a rerating?

We see two possible elements to a rerating, namely:

First element is sector rerating, which, arguably, has already started

The first element of a rerating would be a reversal of the 2022-1Q'23 increase in sector-wide discounts. This requires more confidence in NAV and economic resilience, driven by i) continued exit uplifts and returns, which could give investors this confidence, and ii) a risk-on rather than risk-off environment, which will help. This may coincide with further confidence that a US recession has been avoided or a market view that interest rates have peaked. In our view, when the markets believe they have clarity on the interest rate environment, a significant drag on the share price may reduce rapidly.

Second element is final 15%-20% of discount to par. ICGT's continued delivery of returns likely to be a key driver.

The second element to a rerating is the elimination of the company-specific discount We would characterise the trust as having a sustained discount of around 15%-20% (average year-end January 2017-20 was 18%) with sector-driven noise on top. Given the market-beating returns and conservative approach to NAV (in our view, proven by uplifts on exits), this company-specific discount appears anomalous. The key drivers to its elimination are:

- continued delivery of superior performance; and
- market recognition of this – we note ICGT has in the last year revamped its website, started a monthly newsletter, clarified its portfolio metrics with a move away from the previous high conviction definition, held its first ever investor day, and enhanced portfolio disclosure. Given the number and breadth of these actions, we expect further communication enhancements going forward.

Financials

Our forecast NAV has been reduced reflecting 1H performance and an outlook below historical levels of delivery for FY'24 before a more normal year in FY'25.

Income statement (£000)

Year-end Jan	2023			2024E			2025E		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
UK investment income & dividends			-			-			-
Overseas interest & dividends	2,224		2,224	6,745		6,745	7,054		7,054
Deposit interest & other	47		47	47		47	47		47
Realised gains on investments		9,311	9,311		33,727	33,727		35,270	35,270
Unrealised gains on investments		175,890	175,890		50,000	50,000		211,620	211,620
FX gains & losses	0	337	337	0	0	0	0	0	0
Investment manager fees	(1,701)	(15,312)	(17,013)	(3,709)	(11,128)	(14,837)	(4,140)	(12,419)	(16,559)
Other expenses	(1,956)		(1,956)	(1,762)	-	(1,762)	(1,588)	-	(1,588)
Return before finance costs & taxation	**(1,386)**	**170,226**	**168,840**	**1,321**	**72,599**	**73,920**	**1,373**	**234,471**	**235,844**
Interest payable & similar expenses	(431)	(3,884)	(4,315)	(7,000)	0	(7,000)	(9,000)	0	(9,000)
Return on ord. activities before taxation	(1,817)	166,342	164,525	(5,679)	72,599	66,920	(7,627)	234,471	226,844
Taxation	345	(345)	-	965	(965)	-	1,297	(1,297)	-
Return on ord. activities after taxation	**(1,472)**	**165,997**	**164,525**	**(4,714)**	**71,634**	**66,920**	**(6,330)**	**233,174**	**226,844**

Source: ICGT Report and Accounts, Hardman & Co Research

Balance sheet (£000)

@ 31 Jan	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Non-current assets									
Unquoted investments	491,099	478,362	519,806	571,143	604,306	202,009	269,178	300,905	381,311
Quoted investments	364	1,733	1,655	1,231	35,702	0	0	0	0
Subsidiary investments	80,718	96,392	148,611	206,042	267,554	921,738	1,079,897	1,109,897	1,296,382
Total non-current assets	**572,181**	**576,487**	**670,072**	**778,416**	**907,562**	**1,123,747**	**1,349,075**	**1,410,802**	**1,677,692**
Current assets									
Cash & cash equiv.	38,522	78,389	60,626	14,470	45,143	41,328	20,694	22,662	19,176
Receivables	2,384	10,410	548	1,142	162	2,205	2,416	8,674	10,680
Total assets	**613,087**	**665,286**	**731,246**	**794,028**	**952,867**	**1,167,280**	**1,372,185**	**1,442,137**	**1,707,548**
Creditors	354	963	386	483	851	9,303	6,274	6,298	4,591
Gross debt							65,293	100,000	170,000
Net assets	**612,733**	**664,323**	**730,860**	**793,545**	**952,016**	**1,157,977**	**1,300,619**	**1,335,839**	**1,532,957**
NAV per share (p)	**871.05**	**959.14**	**1,056.51**	**1,152.12**	**1,384.3**	**1,690.1**	**1,903.0**	**1,977.8**	**2,285.6**

Source: ICGT Report and Accounts, Hardman & Co Research

Cashflow (£000)

Year-end Jan	2017	2018	2019	2020	2021	2022	2023	2024E	2025E
Sale of portfolio invests.	50,338	160,712	135,461	107,179	147,545	100,982	32,143	32,000	72,000
Purch. of portfolio invests.	(102,621)	(99,601)	(101,790)	(95,417)	(86,134)	(75,125)	(62,245)	(30,000)	(72,000)
Net cashflows to subs. invests.		(12,824)	(32,427)	(34,446)	(6,486)	(2,524)	(10,162)	20,000	(20,000)
Interest income	7,263	15,967	3,994	5,832	1,231	3,647	1,829	750	750
Dividend income	2,629	6,230	1,883	1,290	5,445	1,854	394	5,995	6,304
Other income	259	129	216	381	71	2	46	450	47
Invest. mgr. charges paid	(6,143)	(7,090)	(7,956)	(9,499)	(10,334)	(6,207)	(21,218)	(14,837)	(16,559)
Other expenses	(1,380)	(1,456)	(1,749)	(1,227)	(1,419)	(1,570)	(1,567)	(4,000)	(2,000)
Net cash inflow/(outflow) from op. activities	**(49,655)**	**62,067**	**(2,368)**	**(25,907)**	**49,919**	**21,059**	**(60,780)**	**10,358**	**(31,458)**
Cashflows from fin. activities									
Bank facility fee	(1,089)	(1,320)	(1,081)	(2,576)	(1,410)	(3,318)	(1,728)	(3,300)	(3,300)
Interest paid				(61)	(440)	(50)	(1,963)	(7,500)	(9,000)
Proceeds from borrowing					-	-	65,293	34,707	70,000
Purchase of shares into treas.	(6,201)	(7,810)	(709)	(2,628)	(775)	(2,679)	(2,016)	(10,018)	(5,590)
Dividends	(11,357)	(13,896)	(14,543)	(15,192)	(15,822)	(17,849)	(19,866)	(22,279)	(24,136)
Net cash infl. from fin. activs.	(18,647)	(23,026)	(16,333)	(20,457)	(18,447)	(23,896)	39,719	(8,390)	27,974
Net inc. in cash & cash equiv.	(68,302)	39,041	(18,701)	(46,364)	31,472	(2,837)	(21,058)	1,969	(3,484)
Opening cash & cash equiv.	103,831	38,522	78,389	60,626	14,470	45,143	41,328	20,694	22,662
FX effects	2,993	826	938	208	(799)	(978)	424	-	-
Closing cash & cash equiv.	**38,522**	**78,389**	**60,626**	**14,470**	**45,142**	**41,328**	**20,694**	**22,662**	**19,176**

Source: ICGT Report and Accounts, Hardman & Co Research

Disclaimer

Hardman & Co provides professional independent research services and all information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable. However, no guarantee, warranty or representation, express or implied, can be given by Hardman & Co as to the accuracy, adequacy or completeness of the information contained in this research and they are not responsible for any errors or omissions or results obtained from use of such information. Neither Hardman & Co, nor any affiliates, officers, directors or employees accept any liability or responsibility in respect of the information which is subject to change without notice and may only be correct at the stated date of their issue, except in the case of gross negligence, fraud or wilful misconduct. In no event will Hardman & Co, its affiliates or any such parties be liable to you for any direct, special, indirect, consequential, incidental damages or any other damages of any kind even if Hardman & Co has been advised of the possibility thereof.

This research has been prepared purely for information purposes, and nothing in this report should be construed as an offer, or the solicitation of an offer, to buy or sell any security, product, service or investment. The research reflects the objective views of the analyst(s) named on the front page and does not constitute investment advice. However, the companies or legal entities covered in this research may pay us a fixed fee in order for this research to be made available. A full list of companies or legal entities that have paid us for coverage within the past 12 months can be viewed at http://www.hardmanandco.com/legals/research-disclosures. Hardman may provide other investment banking services to the companies or legal entities mentioned in this report.

Hardman & Co has a personal dealing policy which restricts staff and consultants' dealing in shares, bonds or other related instruments of companies or legal entities which pay Hardman & Co for any services, including research. No Hardman & Co staff, consultants or officers are employed or engaged by the companies or legal entities covered by this document in any capacity other than through Hardman & Co.

Hardman & Co does not buy or sell shares, either for their own account or for other parties and neither do they undertake investment business. We may provide investment banking services to corporate clients. Hardman & Co does not make recommendations. Accordingly, they do not publish records of their past recommendations. Where a Fair Value price is given in a research note, such as a DCF or peer comparison, this is the theoretical result of a study of a range of possible outcomes, and not a forecast of a likely share price. Hardman & Co may publish further notes on these securities, companies and legal entities but has no scheduled commitment and may cease to follow these securities, companies and legal entities without notice.

The information provided in this document is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Hardman & Co or its affiliates to any registration requirement within such jurisdiction or country.

Some or all alternative investments may not be suitable for certain investors. Investments in small and mid-cap corporations and foreign entities are speculative and involve a high degree of risk. An investor could lose all or a substantial amount of his or her investment. Investments may be leveraged and performance may be volatile; they may have high fees and expenses that reduce returns. Securities or legal entities mentioned in this document may not be suitable or appropriate for all investors. Where this document refers to a particular tax treatment, the tax treatment will depend on each investor's particular circumstances and may be subject to future change. Each investor's particular needs, investment objectives and financial situation were not taken into account in the preparation of this document and the material contained herein. Each investor must make his or her own independent decisions and obtain their own independent advice regarding any information, projects, securities, tax treatment or financial instruments mentioned herein. The fact that Hardman & Co has made available through this document various information constitutes neither a recommendation to enter into a particular transaction nor a representation that any financial instrument is suitable or appropriate for you. Each investor should consider whether an investment strategy of the purchase or sale of any product or security is appropriate for them in the light of their investment needs, objectives and financial circumstances.

This document constitutes a 'financial promotion' for the purposes of section 21 Financial Services and Markets Act 2000 (United Kingdom) ('FSMA') and accordingly has been approved by Capital Markets Strategy Ltd which is authorised and regulated by the Financial Conduct Authority (FCA).

(Disclaimer Version 8 – Effective from August 2018)

Status of Hardman & Co's research under MiFID II

Some professional investors, who are subject to the new MiFID II rules from 3rd January 2018, may be unclear about the status of Hardman & Co research and, specifically, whether it can be accepted without a commercial arrangement. Hardman & Co's research is paid for by the companies, legal entities and issuers about which we write and, as such, falls within the scope of 'minor non-monetary benefits', as defined in the Markets in Financial Instruments Directive II.

In particular, Article 12(3) of the Directive states: 'The following benefits shall qualify as acceptable minor non-monetary benefits only if they are: (b) 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public…'

The fact that Hardman & Co is commissioned to write the research is disclosed in the disclaimer, and the research is widely available.

The full detail is on page 26 of the full directive, which can be accessed here: https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2031-EN-F1-1.PDF

In addition, it should be noted that MiFID II's main aim is to ensure transparency in the relationship between fund managers and brokers/suppliers, and eliminate what is termed 'inducement', whereby free research is provided to fund managers to encourage them to deal with the broker. Hardman & Co is not inducing the reader of our research to trade through us, since we do not deal in any security or legal entity.

research@hardmanandco.com

1 Frederick's Place
London
EC2R 8AE

www.hardmanandco.com