

# Barwon Global Listed Private Equity Fund

## Monthly Report – December 2022

The Barwon Global Listed Private Equity Fund aims to provide wholesale investors with a high performing portfolio of private equity investments in a fee efficient manner whilst offering daily liquidity.

Net Performance at 31 December 2022<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>
Net Return	-5.5%	7.4%	-24.6%	3.1%	5.9%	11.0%	5.7%

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

NAV Price	0.6896
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Entry Price	0.6917
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Exit Price	0.6875
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The Barwon Global Listed Private Equity Fund's (Fund) net return for the month of December 2022 was -5.5%. Over the 10 years ended 31 December 2022 the Fund has returned 11.0% p.a.

## Market Commentary

Contributors over the month included PowerSchool Holdings (USD +13.1%), Apax Global Alpha (GBP +6.1%), and 3i Group plc (GBP +1.2%). Detractors to performance included Blackstone Group Inc (USD -18.9%) and KKR & Co Inc (USD -10.6%).

2022 was a turbulent year for listed private equity. Private equity NAVs declined an average of 5-10% in the first three quarters of the year (the most recent valuations available at present). There was significant dispersion in NAV performance, as supply-chain challenges and inflationary pressures had varying impacts on companies. Generally, underlying company earnings growth is tracking positively and has been stronger than expected. However, the positive earnings story has been more than offset by pressure on valuation multiples.

The relative outperformance of private market vs public market assets has caused PE sponsors to focus their high levels of dry powder on take-private transactions. Moreover, as PE sponsors hold on to investments for longer, they're also executing more add-on acquisitions for existing portfolio companies. This is a well-worn playbook, particularly in volatile market conditions for well-capitalised, high quality private equity backed companies. They typically acquire financially stressed competitors, carve-outs from larger corporates looking to restructure, or simply complementary businesses at attractive valuations. According to Pitchbook, add-on activity accounted for a record 78% of all US PE M&A in 2022, a trend likely to continue.

While M&A volumes have been lower, the sale of investments by LPEs at transaction values above the prevailing NAV, as high as 20-40% above, serve to validate private valuations and drove outperformance in Fund holdings including Oakley Capital Investments, Apax Global Alpha, 3i Group, and HgCapital Trust.

Quite simply, we believe the LPE sector remains cheap as NAVs are still carried below realisable value and share prices are trading at wide discounts to NAV of circa 30%.

### *Alternative Asset Managers*

The alternative asset managers as a sector detracted from Fund performance over 2022. Concerns around interest rates, inflation, and most recently the pace of growth in the private wealth channels post the Blackstone REIT redemption limits have weighed on valuations. Fundraising is increasingly bifurcated on two planes. Firstly, strategies which perform better in high inflation and interest rate environment such as infrastructure and floating-rate private debt are in greater demand than real estate and private equity buyouts. Secondly, the larger scale global managers are better placed to raise capital than small and mid-cap managers. The largest five PE sponsors collectively manage approximately 20% of global PE AUM.

The volatile macro environment may continue to weigh on near term performance. However, their low revenue sensitivity to asset prices (fees are charged on committed or invested capital), substantial dry powder, and long term locked-up capital are key advantages of the private equity structure in navigating macro volatility.

### *Private Debt*

Listed private debt funds outperformed in 2022 supported by higher base interest rates and better than expected credit quality. It was still a volatile year for the sector, currently trading at a 10% discount to NAV on strong Q3 results, but much wider at times. The sector's floating rate portfolios benefitted from rising base rates and had little offset from credit deterioration. This allowed the majority of BDCs to raise their core quarterly dividends and dividend coverage remained very strong in the third quarter (119%).

We expect higher credit losses in 2023. However, rising base rates and widening credit spreads will meaningfully increase private debt funds' ROE. On balance, we believe this will lead to higher sector ROE. In December we added Golub Capital BDC (GBDC) to the Fund. At the time, it traded at a 13% discount to NAV and paid a 10% gross dividend yield. GBDC has a \$5.5 billion loan portfolio 94% invested in first lien loans and 100% of its loan exposures are floating rate. Its high exposure to floating rate loans means it is well positioned to see meaningfully higher net investment income as loans continue to reset to higher base rates. In the third quarter, the average 3-month base rate applied to its loan portfolio was 3.0%, compared to a higher market base rate of 3.75% at 3 October 2022. The loan portfolio will move to the higher base rate over the fourth quarter adding an additional 12% to GBDC's net investment income. The base rate at time of writing sits at 4.79%, a further 100bps increase, which would add another 11% to net income. GBDC has a long-term track record of low credit losses and we think offers a very attractive risk adjusted return. We are likely to continue to selectively add private debt funds if the sector trades down in 2023.

### *PE-backed Companies*

Given the tightness in capital markets, new IPO activity was muted in 2022 with only c.US\$9b raised by IPO's (excluding SPACs) compared to a US\$56b annual average over the past decade. The Fund was a net seller of its PE-backed holdings in the year, opportunistically exiting companies such as Apollo-backed ADT. The Fund's remaining PE-backed companies demonstrated resilient trading performance and the biggest contributor to Fund performance in 2022 was PowerSchool Holdings. PowerSchool, backed by Onex and Vista Equity Partners, is a market leader in the K-12 EdTech market for Student Information Systems. Its double-digit earnings growth and industry leading margins led to a 40% stock price return over 2022.

## Underlying Investment Exposures on a Look Through basis

Investment Classification		Vintage Year		Geographic Exposure	
Buyouts	44%	Pre-2017	26%	North America	61%
PE Backed	4%	2017	9%	Europe	31%
Alternative Asset Manager	30%	2018	18%	Other	8%
Private Debt	9%	2019	11%	Total	100%
Liquidity	13%	2020	14%		
Total	100%	2021	15%		
		2022	7%		
		Total	100%		

## 5 Largest Holdings by Weight

Company	Type
Eurazeo	Buyouts
Blackstone Group Inc	Alternative Asset Manager
KKR & Co Inc	Alternative Asset Manager
Oakley Capital Investments Ltd	Buyouts
Onex Corp	Buyouts

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.

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

Barwon offers access to the same strategy via a feeder fund, the BGLPEF AF (Access Fund), offered under a PDS and is for financial advisors, financial intermediaries and investors investing via platforms.

Access Fund Ratings & Platform Availability
AMP North
Asgard
BT Panorama
Colonial First Wrap
Macquarie Wrap
Netwealth
Hub24
PowerWrap
Praemium



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.

## About Barwon Investment Partners

Barwon Investment Partners is an Australian fund manager with a 15-year track record of generating strong investment returns for institutional and wholesale clients.

Barwon is independently owned with an experienced team of over 40 investment professionals focused on healthcare property, property finance and global investments.



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