29 November 2024

Dear fellow shareholder,

HVPE's extremely wide discount and a proposal to offer shareholders equivalent liquidity terms to the new HarbourVest Partners' private fund

In July 2020, Mr Ed Warner became the Chair of HVPE. At this date, the prevailing discount between the net asset value per share and the share price was 22%[1]. By the end of October 2024, the discount had widened to 45%[2]. Eliminating this discount would create over £1.3bn in value for the Company's shareholders.

The Company introduced a new capital allocation policy in February this year[3], the market has now had nine months to assess its impact. The share price indicates, to us, that this policy is completely insufficient to address the problems faced by HVPE and that further structural solutions are required. Any fund which consistently trades at a discount of over 20% is not delivering value for its shareholders and fundamental steps need to be taken.

What has led to the recent discount widening?

Despite the Company's preference for presenting its returns in US Dollars, most shareholders in a London Stock Exchange-listed investment company are likely to be Sterling-denominated investors. HVPE's sterling NAV per share peaked in September 2022 at £42.21, in October 2024 this was £40.49, a loss of 4% in two years. This compares to a return of 36% for the FTSE All World Total Return index[4], the benchmark referenced by HVPE, a relative underperformance of 40%.

In our view, the principal cause of this poor relative performance is capital allocation. At the recent Peel Hunt Conference, Peter Wilson, Managing Director at HarbourVest Partners (HVP), was asked the discount at which the HVP private funds trade in the secondary private equity market. He replied that 'high quality' direct funds traded at 5-9% discounts to their last NAV, whereas the HVP funds, owing to the complexity of the fund-of-funds structure, traded at a discount of 15-18%. Two points can be deduced from this information: that every dollar invested into the HVP funds is valued by the professional secondary market at less than the cash committed and that the HVP private funds are seen as less attractive than direct investments into underlying high quality private equity funds.

In contrast, the returns from buying back the Company's shares at the current discount are sizeable. In the six months to July 2024, HVPE bought back $45m of shares which resulted in an increase of over $30m of value for shareholders[5]. Despite this, HVP and the Board are choosing to invest at least 85% of cash flow into new investments, compared to just 15% into buybacks.

This situation is compounded by the use of leverage to fulfil the commitments made to the HVP funds. At the end of October HVPE had $480m[6] of debt, on which it is paying a spread of 3.5%[7] over the

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[1] Live net asset value per share, Interim accounts July 2020; pdf page 11.
[2] October 2024 Monthly Factsheet.
[3] RNS 1st February 2024; Update on shareholder distribution policy and capital allocation.
[4] Source: Bloomberg FTS6ALWR INDEX in GBP.
[5] Interim accounts for July 2024 page 3 'net effect of $0.40' per share for share buybacks multiplied by the shares outstanding at the end of the period.
[6] October 2024 Monthly Factsheet.
[7] RNS 6 June 2024.

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reference rate. The Secured Overnight Finance Rate was 4.9%, which means that the Company would be paying 8.4% on its US Dollar liabilities. This is significantly above the 6% compound annual return that Shareholders have received over either the last one, or three years.

What arguments does the Board make for the current capital allocation policy?

Two main arguments have been advanced by the Board in support of making further commitments to the HVP funds: the need to maintain a diversified spread of vintages and that these new investments generate superior returns over the long term, relative to the repurchase of shares at a discount.

We believe that it is no longer necessary to use primary commitments to get a spread of exposure to vintages, due to the depth and liquidity of the secondary market. The combination of the secondary market, continuation vehicles and direct deals fundamentally undermines the concept of a 'vintage'. Which year should a follow-on deal for a 2020 fund investment, made in 2024, be categorised? Metage notes that HVP itself is happy to use these mechanisms to achieve a diversified portfolio for at least one other of its funds[8].

Buy backs are often misrepresented as a trade-off between a short-term uplift, versus the benefits of a long-term return on a new investment. This is a false analogy. Buying back shares increases the exposure of long-term shareholders to the growth of the existing portfolio at a discount, the benefit of which continues indefinitely. Further, the repurchase of shares has zero risk, as opposed to the considerable investment risk in a new private investment – especially when compared to a leveraged commitment to a blind pool.

Even in the situation where the manager believes that an investment has better return characteristics than the current portfolio, it cannot make sense to invest cash when the fund is languishing at such an extreme discount - as opposed to selling the Company's existing assets at a far tighter level and reinvesting the proceeds into this new opportunity. This portfolio optimisation is what any fund manager is paid to do for their investors.

Will marketing improve the rating of HVPE's shares?

A lack of awareness and understanding of HVPE is often cited by the manager and Board as a key cause of its discount. As the 70th largest stock in the FTSE 250 by market capitalisation[9] we are sceptical of this claim. It is also notable that, despite increasing the marketing budget by 70%, the discount has simply widened[10]. HVP itself has had no problem raising new funds, reporting $80bn of AUM in June 2021[11], which rose to $127bn in March 2024.

In particular, we would highlight the HarbourVest Global Private Solution SICAV SA (HGPS), which was launched in January 2023 and now has AUM of $1.3 billion[12]. The Manager has demonstrated that, with the right structure, it can raise significant assets even at net asset value.

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[8] HarbourVest Global Private Solution SICAV S.A. September 2024 Factsheet.
[9] HVPE Semi-Annual presentation October 2024 page 2.
[10] HVPE Semi-Annual presentation October 2024 page 3.
[11] Harbourvest Partners announces close of direct lending fund, 23 September 2021 and Semi-Annual presentation October 2024.
[12] HarbourVest Global Private Solution SICAV S.A. September 2024 Factsheet.

Why should there be a difference in investor appetite between the open-ended HGPS and the Company?

The two funds' terms are broadly similar, with one critical difference - investors are able to redeem at least 5% per quarter in the open-ended HGPS. Consequently, HGPS investors know that they can fully exit their investments, at NAV, within 5 years. To support this liquidity profile, HGPS has a higher exposure to secondary and co-investments and invests directly into these transactions, as opposed to via an HVP fund. As the primary investments, which are a higher proportion of HVPE's portfolio, have a much longer investment and divestment period, this means that there is expected to be a greater proportion of HGPS' assets being crystallised in any year.

Metage recommends that the Board brings forward formal proposals to align the investment portfolio of HVPE with that of HGPS and institutes quarterly tenders for 5% of the Company's outstanding shares. This plan should include immediately stopping commitments to all new primary funds and utilising any excuse rights it has to not fund existing commitments, where it makes economic sense to do so. Further, the Company should sell stakes, as required, to pay down debt. If the Manager and Board do not believe that such a structure is deliverable, then the fund should be put into liquidation to eliminate the discount once and for all.

HVPE should be the shop window for HarbourVest Partners. At this discount, we believe both the Board and the Manager should view this as a dim reflection.

Yours sincerely,

Tom Sharp

Chief Investment Officer, Metage Capital Limited