Apax Global Alpha

Investor Day

Tuesday 10th May 2016

Tim Breedon, CBE, Chairman

Good morning everyone. My name's Tim Breedon. I'm the Chairman of Apax Global Alpha, and welcome to the company's first Investor Day. This is being filmed, just to let you know.

We're holding this event in response to feedback that we've received from shareholders and potential shareholders that more detail would be appreciated on AGA's investment process and also on the underlying portfolio holdings. So, that's what we've arranged for today.

So, to that end, in addition to Ralf Gruss, we have here Nico Hansen, who most of you will know, we've invited a number of Apax's sector heads over here to talk to you today.

Following their presentations we've scheduled a Q&A session; pleased to answer any questions that you may have at that time, and also receive any comments that you might have regarding our process, our performance, our governance, our reporting. In all of these we're aiming to be best in class, so any help you can give us would be very much appreciated.

We've had a very busy first year of operation. First there was the successful IPO in which we raised the maximum targeted amount of €300m, with the offer remaining oversubscribed. In my view though there are a number of reasons why the IPO was successful. I think these included most importantly: The Apax name and track record. There was the innovative fund structure with the derived investment portfolio arising out of the same disciplined asset selection approach as private equity investments, but providing balance, diversification, liquidity and eliminating cash drag. There was the attractive pricing, which was achieved by buying the assets of the PCV Group – that's the forerunner to AGA – at a discount to NAV via a share exchange, and net of substantially all of the IPO costs. And also, I hope, it was beneficial to make a commitment to clarity and transparency in reporting. And I hope we achieved at least some of that, at least as far as is possible, with the prospectus.

Post the IPO and before the end of 2015 we invested the proceeds of the offer ahead of the timetable, which we'd indicated at the outset. We also put into place the governance superstructure, which will enable the Board to monitor and control the activities of the company effectively. And more detail about that can be found in our first annual report published in March this year and I think we have a copy on the tables in front of you. And finally the performance of the portfolio, it's remained strong although in the last quarter NAV has gone backwards a little, largely as a result of weak markets, foreign exchange effects, and the payment of our maiden half-yearly dividend set at 2.5% of NAV.

So the agenda for today is on the screen. So let me handover to Ralf to cover investment strategy in more detail.

Ralf Gruss, COO Apax Partners

Thank you Tim and welcome everybody also on my behalf to the Investor Day today. My name is Ralf Gruss. I've been with Apax Partners now for almost 16 years. I was a former Partner in our Services team, and I'm now Global Chief Operating Officer. I also head the advisory activities within Apax Global Alpha within Apax. And I'm a member of the Investment Committee for AGA.

I'd really like to use the session to cover a couple of points. First of all summarise AGA's investment strategy. I would also like to highlight how the Fund seeks to create alpha, both in our private equity and derived investments. And last also demonstrate to you that I think we've done quite well in executing against the objectives that we set ourselves at the time of the IPO.

Now, with that let me give you a brief overview on Apax Partners itself. We consider ourselves being an industry leader in the Private Equity industry and one of the pioneers in the sector. Apax Partners was set up almost 40 years ago, more than 40 years ago actually if we look at the years. The first operations were set up in 1969 in the United States, and 1972 in Europe.

As you can see from the map, we are truly a global firm, and we have global reach. Our largest offices are in Europe and the United States, and we do cover the key emerging markets having offices in China, India and Brazil. We also have a very strong office in Israel which we have established more than 20 years ago. Actually our strong market position there has allowed us to raise a dedicated Israel Midmarket Fund in which AGA has invested. My colleague Nico Hansen, Chief Investment Officer, is going to touch on that later on in his presentation.

Across the globe we operate through approximately 100 investment professionals who are organised in sector teams. Our core sectors are Tech & Telco, Services, Healthcare and Consumer. And it's very important and we are going to go through and touch on these teams later on in all of the presentations. These are really the four sectors and the focused sectors in which we invest both for Private Equity and Derived Investments.

We have invested in these sectors for many, many years and these sectors are organised on a global level. And it's really those global sector teams that are the ones who derive deal flow and doing transactions within Apax. And as you know, we have invited Partners of these sectors to this meeting to talk about their strategies and some of the investments that they've done.

Now, Apax Global Alpha, or AGA, was set up to provide public investors access to that global platform and investment expertise of Apax. And AGA achieves this by investing in Private Equity and Derived Investment in a balanced way. If I turn to the left-hand side of this chart first you can see that AGA invests in Private Equity principally by committing to the Private Equity funds raised by Apax Partners. AGA also has the ability to buy commitments in the secondary market in addition to its primary commitments, and has done that in the past, for example for Apax Europe VI and Apax Europe VII.

The other investments that AGA undertakes are Derived Investments. We have called them Derived because they are derived from our core Private Equity business; and I'll describe that approach in a couple of minutes. Derived Investments are essentially investments in debt or investments in listed equity.

Now, let me spend a minute on the reason why we thought combining Private Equity and Derived Investments is a good idea. I think there are three reasons for that: the first is Derived Investments in addition to the Private Equity investments are attractive return generators, which I think is a reason in itself.

The second is most of these Derived Investments are more liquid in nature than the typical Private Equity investments in our funds, and therefore AGA can use the Derived Investments to essentially absorb cash distributions coming out of the Private Equity funds, and realised Derived Investments to invest in Private Equity funds, allowing AGA to operate at a fully invested basis, avoiding a cash drag for investors.

And the third reason is, and that especially applies to the debt investments which we have within our Derived Investment portfolios, they provide an attractive ongoing cash return and cash income, a yield, which helps AGA to support the dividend payment to its shareholders.

Now, talking about yields and returns and income, AGA aims to achieve a 12% to 15% net target return over the cycle per annum, of which AGA targets to pay 5% as an income dividend to shareholders.

In trying or aiming to achieve the 12% to 15% net target returns the basis for it is Private Equity returns for the Private Equity portfolio, where we aim to achieve 20% to 25% across the portfolio, 10% to 12% for that Derived Investments, and 20% to 25% for Listed Equities. Now, these are obviously in my view attractive return levels. How do we go about identifying the investments that lead to these kinds of outcomes?

The core starting point really for all of the investments for AGA are the four Apax sectors, and they are shown here on the left-hand side of the slide. The team members in the sectors are specialists in their fields; they look at the different subsectors within each industry and identify the trends that they think are interesting for investment. They are also close to the companies and management teams within their sectors globally, with an approach to try and find or manufacture a transaction. This is done on a global level and through the Apax office network, and that global approach really allows the sector teams to chase the most attractive opportunities, no matter where they are in the world.

We've also put some stats on our Partner team on the slide here for you to get a flavour of the experience we have built within our investment team.

Now our core business is obviously to do Private Equity deals and to drive value through transformational ownership. With the sector driven approach the investment teams identify the opportunities in which the Apax Private Equity Funds invest, and now from an AGA perspective you the shareholders have exposure to these transactions through the investments that AGA makes and commitments that AGA makes into the Apax Private Equity Funds.

Now speaking about directly Derived Investments, where the investment teams identify a transaction that is an opportunity to make money, an ability to generate an excess return, but where this opportunity does not fit the investment criteria of the Apax Funds, we would look at it from a Derived Investment perspective. And you can see that on the bottom right here of the chart. As I mentioned before, these investments could be both in debt or in equity.

Now without stealing the thunder of what my colleagues are going to talk about later on, the next page in the presentation highlights some of the investments that were made in the four core sectors of Apax. And you might recognise some of the names here: Sophos, the IT security company which was listed on the London Stock Exchange. Exact and Epicor are two software companies, one based in Europe, one in the US. In Services, Rhiag is an Italian automotive distribution business, which was recently sold. Unilabs, a European laboratory business in which the Apax Funds have invested. Or in Consumer, Cole Haan, a shoe fashion brand in the United States, which was a carve-out transaction from Nike. All of these are examples of transactions done by the sector teams and generated along the process that I just described.

What I would like to touch on briefly is that in addition to the sector teams we also have three what we call practices within Apax: the first one is Digital. Digital is really a group of digital specialists with decades of investing and operating experience in the digital space, who work across our four core industry sectors on online and digital transactions. The chart here highlights a couple of the investments that they've been involved in.

The second practice is the Operational Excellence Practice. Members of the Operational Excellence Practice are seasoned operators and functional experts in their areas. They directly work with the management teams on projects, but they also work with our deal teams from the sector during due diligence.

The third is the Capital Markets team. The Capital Markets team is very important, both for our investing activity on the Private Equity side, but also for our Derived Investment strategy. For the Private Equity business the Capital Markets team gets involved in all the financing activities of our portfolio companies. In relation to AGA's derived investment the Capital Markets team is closely working with us when AGA is investing in debt, providing debt investing know-how and technical expertise, but is also acting as a source of investment ideas given their proximity to debt markets. And Mark Zubko, who is heading that team, is also here with us today and will share some of his thoughts later on.

Now speaking of Derived Investments, how do we go about identifying those? We've illustrated this on the next chart. As I mentioned, core to our Derived Investments is our Private Equity process. That process we try to illustrate here at the top. Our sector teams track many, many opportunities which could become a Private Equity deal, and those that they think could be interesting they take to an Approval Committee. Once it's been discussed at the Approval Committee, due diligence is done, and if the deal has legs it makes its way to the Investment Committee. Ultimately it might end up as a deal in our Private Equity funds, and again you, as investors in AGA, participate in this through our Private Equity commitments in these funds.

Now what I'm describing here in very short words is actually quite an extensive process where a lot of Private Equity insight is gained. Insight is gained into the business model, intrinsic value of companies and their competitors. Insight is gained in capital structures that companies deploy. The deal teams form a real tight understanding which markets might offer consolidation potential. We also might be doing diligence on deals where eventually no Private Equity opportunity materialises; for example, because one of our competitors is outbidding the Apax Funds; or because we take a different view and we say the equity story is less compelling, but it's the debt story which is really interesting; or where AGA invests in the debt of Apax portfolio companies AGA can obviously benefit from its superior insight which we have about these companies.

Now this is really the knowledge and the insight which we use and which we build on to identify Derived Investments.

And using this approach, and you can see the numbers here at the bottom of the chart, AGA and its predecessor vehicle has invested almost half a billion euros in debt and close to €200m in equity. And the logos here at the bottom of the page just illustrate investments which were either made through debt or equity.

Now to close my presentation, I would also like to take a quick step back. When AGA went public almost a year ago, a couple of objectives were set out which AGA wanted to achieve.

The first was that the aim was to invest the proceeds raised from the IPO within 12 months post-listing. Now I am pleased to report that this objective was achieved basically within six months and AGA was fully invested at the year-end 2015 and it remained fully invested at the end of March with 95% of its capital deployed in its Investor Portfolio.

The second while this is clearly a long-term and over the cycle objective. The Fund is aiming to achieve a 12% to 15% net target return. Despite the volatility that we've seen, especially in the second half of 2015 and the first quarter of 2016, the Fund was well within that corridor during 2015, achieving a 13.6% target return. Sorry, 13.6% actual return – that's not a target! And 2016 has also come off to a robust start in the first quarter. The Fund is targeting a 5% dividend yield, and as Tim has mentioned, half of that was already paid at the beginning of April and declared in March.

And the strategy of the Fund is to achieve all of this with a balanced portfolio between Private Equity and Derived Investments. And again, you can see here on the chart that the proceeds from the IPO were deployed in such a way that the Fund was very balanced, both at the end of December and at the end of March.

AGA is also aiming to continue to invest in new funds raised by Apax, and therefore the proposed $350m commitment, which was announced earlier this year, Apax's new Private Equity Fund, Apax IX, is in line with AGA's strategy.

Now with these points, I would like to hand over to my colleague and our Chief Investment Officer, Nico Hansen, who will first cover his views on the investment environment and outlook in the markets, and then also review our current Private Equity portfolio for AGA.

Nico Hansen, Chief Investment Officer

Thank you, Ralf, and good morning to everyone. Thanks for the great attendance here on a rainy Tuesday.

My name's Nico Hansen. I'm the Chief Investment Officer at Apax. I've been with the firm since over 16 years now. I started as a Senior Associate in our Munich office way back, and then became a Partner in our Tech and Telecom practice. And since six years, I am essentially running our Investment Committee, both for the Apax Private Equity Funds, as well as for Apax Global Alpha.

Now you'll have to bear with me for two sessions this morning. The first being our current view on the investment environment and then a somewhat deeper dive into the Private Equity portfolio.

So let me start with the investment environment here.

We've obviously been observing a lot of volatility in the past six months or so, triggered by, first, there's some concerns about China, then the crisis in the energy markets, and more recently, some issues around debt, most of which were also triggered through the energy issues that we have been seeing around the globe, but in particular, affecting the North American producers there, shale oil and gas. And all of which have led to a significant increase of volatility in the past six months. Nevertheless, I think if you look at the public market valuations here depicted on this chart, you can still see that we are again operating in a fairly elevated evaluation environment, which I'm afraid, to some extent, as you will see in a minute, spills over also in the Private Equity markets. It's clearly a relevant backdrop to what we are seeing in terms of opportunities in both the Private Equity side of our business as well as in Derived Investments here.

As I said, we are operating in an elevated pricing environment and you can see that by actually comparing the actual valuation levels, and I've depicted it here in PE terms, with where we see the five-year long-term averages, which are shown in this black bar across these bar charts here; and obviously the key takeaway is that we are relative to long-term historicals at a fairly high point in valuations. And only a few markets are actually cheaper than where they were in the long-term, most notably on this chart, Israel and China, but each of those have their issues. Israel is small and is not necessarily a huge source of deal flow, although we are targeting it with Apax Mid-Market Israel, a Private Equity fund AGA has committed to, which is exploring opportunities in Israel.

And then China, which, as we know, is going through a structural transformation, and over late there's a lot of cyclical shifts and may be cheap for a reason. So it's not an easy situation for buying and that goes for, as you can see, public and private equities alike.

On this chart, we are depicting the valuation levels of large and mid-cap buy-outs over the years between 2007 and 2016. And as you can see, in the years 2014 and 2015, we've basically reached the levels back that we saw in 2007, which, in hindsight, we know hasn't been the greatest vintage for private equity investing.

Now this looks kind of dire to some extent. I think it's not as dire as it appears here, because today, for Private Equity deals, the cost of capital on the debt side is significantly lower than it used to be in 2007, and there's also the burden of cash flows for interest payments on companies that Private Equity owns is substantially lower. So while there are some similarities here between the investment environment in 2014 and 2015, and maybe also the start of the year 2016, and when it comes to the operational burden and the financial burden, that the debt side of the equation here has for the Private Equity investments.

Now I'd like to highlight one interesting fact here, and it's somewhat the opposite to what we said in our first quarter reporting, and namely that we observe in our Private Equity business actually lower valuations in 2016 than what we saw in 2014 and 2015. And we've now found out in hindsight that this is actually not reflected by the market data.

Now I will say that overall, I think the market is a tough one right now, as shown on this chart here, from a buying perspective, and not so much necessarily from a selling perspective, as you might expect. However, when I'm looking at our two investments that we announced in the first quarter of 2016 in the Private Equity funds, and thus also indirectly in Apax Global Alpha, a company in Italy called Engineering, and a joint venture that we are forming together with Becton Dickinson, or corporate carve-out, from Becton Dickinson, which we are investing in.

These two acquisitions have actually been, or will be made, at substantially lower multiples than what you see here for the entire market, and both are sitting between six times and seven times EBITDA and are thus substantially lower. And it kind of made us think that actually the environment is more benign for buying companies than it was in 2014 and 2015. I would say that we continue to see interesting opportunities. They are more niche than the overall market has exposure to. The sector teams will talk about how they find these more niche opportunities, and with more niche comes obviously a certain pricing profile as well, which has been good for us. We'll talk about that in great detail today, but I think the general environment, and I've read the first quarterly reports of our peers; KKR, Apollo, Carlyle, all of them are public in the US, the environment is a tough one generally. We have so far dodged it a little bit, but it's not an easy situation.

What are the tools or the strategies that we are applying to deal in this relatively tough environment? What are we looking for in Private Equity deals to address the issues that are raised by a fairly elevated pricing level? Well, we focus on three types of deals, which I've tried to lay out here on this page 16 in your presentation.

But first of all, we are looking for the odd men out, i.e., the cheaper deals that we can find through, I think, a sourcing process, which is very close to the industry level and is enabled through our industry specialists in our sector groups. And we've been successful with that and you see a few logos here, all of which I think have been purchased essentially between six and eight or nine times EBITDA, and those are exceptions in the current Private Equity environment.

We'd love to do more of those, but we can't live off exceptions, and so the second bucket of focus here is in early value creation. And these are opportunities which are driven by ideas that we have or create in-house for changing, fundamentally changing and transforming the companies that we are buying through typically either M&A opportunities, where we combine two or more assets to generate synergies that make the in-prices palatable. Or through cost cutting and margin improvement, and we've found opportunities in both fields here and we are continuing to find those as we speak.

And then the last bucket here is a bit of a situation that is again driven by our sector expertise. There are a number of companies we've been actually looking at, or working with even, for many, many years, and sometimes these opportunities come up and we are able to execute on them because we are simply closer to them and we have a higher level of confidence in the long-term performance and maybe our competition, and maybe a better perception of risk. And despite paying higher multiples, we are observing value creation and are able to drive value creation in those. And a good example for that is Exact, which we by no means bought cheaply, but the company is growing beyond the expectation of the public market. It was a public to private happening at the beginning of last year and it's one of our key value drivers in the portfolio for AGA as well.

Now with regards to the Derived Investment side, there's one overarching theme obviously here for what we see in particular in the debt investments, and that is an increase in spreads and yields that is available in the market since 2014, and then an overlay by actually how different the American and the European markets have developed. And as you can see, originally, actually, the yields of European debt issues and American issues were quite similar and developed in parallel. But with the gyrations, in particular in the American debt markets, due to the exposure that they have to energy, actually the spreads widened a lot more in the US than in Europe and liquidity actually became more of a problem in the US than in Europe. A situation very uncommon. And most of our deals in the derived side, in the debt derived investment, are trying to exploit this trend some way or another.

So in Derived Investments, on the debt side, we're looking at this yield disparity between Europe and between the US, and so the more recent investments have been in the US. And the second theme is that we are focusing more on liquidity than we used to, i.e., we are favouring very liquid loan tranches and high yield over the less liquid issuances that we have maybe looked at two years ago or three years ago.

In listed equities we continue to focus on value niches. We have a larger exposure in emerging markets in the listed equities than we have, for example, in private equity, because we see that the volatility and the imperfections in those markets are actually conducive to making attractive investments, and obviously we've generated the right amount of returns here in the past. Overall, we believe that volatility, the stuff that we've observed in the past six months is generally a good thing for us because volatility creates market imperfections, undervalued niches, and also sometimes over-appreciation for some of our assets, and we are using that obviously to buy hopefully cheap and sell more dear.

This is the investment environment, and I'm obviously more than happy to answer any questions that you may ask later.

Let me switch to the deep dive in our Private Equity portfolio that I've promised, and turn to the portfolio composition in terms of exposure that Apax Global Alpha has to the different Apax Private Equity Funds. The lump of the exposure here as you can see is to Apax VIII, which is a 2012 vintage fund, and the AGA NAV is seen at €60m in Apax VIII out of a total of roughly €440m in Private Equity.

Obviously Apax VIII is now largely invested and as a next stage in terms of continuing the exposure of Apax Global Alpha to Apax Private Equity Funds, Apax Global Alpha will make a commitment to our next fund which we are right in the middle of fundraising, which is called Apax IX, and I'll talk to the strategy of that fund in a minute.

Now in terms of another fairly new exposure that Apax Global Alpha has taken on, it's a small one, it's very immature yet. We have an exposure, a small one, of €3m in terms of net asset value, a commitment of $30m to Apax Mid-Market Israel, which gives focused exposure to a fairly cheap, and for us a very successful, Private Equity market. And in the other exposures to Private Equity Apax Global Alpha has, is to more mature funds, Apax Europe VII, a €77m exposure to a 2007 vintage fund, and Apax Europe VI, a small €3m exposure to a 2005 vintage fund. Both exposures were acquired through secondary transactions where we bought these fund investments from exiting Private Equity investors around the globe.

The overall return that Apax Global Alpha has made by investing in Private Equity since its inception has been 24% of IRR.

Now, with regards to the expected commitment of Apax Global Alpha to the next Apax Private Equity Fund, we are targeting a $350m commitment to Apax IX. Apax IX's strategy is very easily explained, it's basically a mirror image of the Apax VIII strategy. It's going to invest in the same sectors, it's going to invest with the same geographical exposure, and it's going to invest with the same team that Apax VIII has invested with. It also has the same target size as Apax VIII, although I can assure you already that this target size will be exceeded because fundraising is going extremely successfully and you should expect a slightly larger fund when it is finally closed.

Now, in terms of the exposure and allocation to different companies and different vintages and different sectors and different geographies, let me lead you through the next few pages here. I'm again talking about Apax Global Alpha's exposure in the Private Equity world here. We've depicted the exposure to company names here on the left hand side of this chart, and you can see that the largest 10 names make up about 60% of the overall Private Equity exposure. The remaining 32 companies are close to 40% of the exposure, so by all means it's a well-diversified portfolio from a logo perspective. From a vintage perspective I think you will see and you will expect, given the exposure to Apax VIII, a larger exposure to more recent investing vintages, in particular 2015 and then 2014 and 2013. The older vintages here as expected are smaller because most of those portfolio companies in Apax Europe VI and Apax Europe VII have already been exited, and so these are essentially remaining exposures to those companies which haven't been sold yet. But those funds are in exiting mode and in harvesting mode and you would expect those percentages to obviously shrink over time.

From a vintage exposure here I think it is important to bear in mind that typically our value creation in the Private Equity companies, at least the way we intend it to be, is happening early on, because we are buying companies that we can fundamentally change, and we have change plans, that typically target the most impact in the first 12 to 24 months. So you would expect that the more recent vintages here, let's say from 2013 to 2015, will undergo significant value appreciation at least as per plan; and so I believe that this is a portfolio that actually bears a lot of hope and, hopefully, tangible hope for value development here in the next three or four years.

From sector and geographic perspectives we have four sectors, and so if you had sectors of equal or exactly equal size you would expect a split of 25/25/25. Historically we've always been a little overweight Tech and Telecom, which also is related to our digital expertise which is most applicable generally in Tech and Telecom; and as in our older funds we have a Tech and Telecom overweight portfolio also in Apax Global Alpha. Due to the strong performance and investment focus on Services in the past two years we also see Services here as an unusually large chunk. What you should bear in mind here is that Services is probably the broadest of our sectors because it comprises both Business Services and Financial Services, and so I don't think this is an issue for diversification at all.

From a geographic perspective this is probably more noteworthy because we are overweight in North America here, in particular because both derived investment opportunities in the past two years, and I mentioned the high attractiveness of US debt over European debt, as well as the Private Equity opportunities that Apax Global Alpha has exposure to, which kind of reaches back to 2010/11/12, have over weighted US opportunities for good reasons, I think. The more recent investments in Private Equity though tend to be more weighted towards Europe, because overall we find slightly better opportunities in Europe now than we find in the US, mostly due to the valuation level, but also because Europe is actually benefitting from some macro trends more than the US. I think there's an unequivocal positive effect of low energy prices in Europe. Whereas that can't be easily said about North America because North America has turned into one of the largest oil and gas producers over the past 10 years, and so it's a little bit of a more mixed picture. So, I would expect actually that sector is split to kind of gear more towards Europe in the next one or two years.

In terms of value development here, and we've chosen the LTM performance as opposed to the annual performance because we wanted to keep you obviously updated also how we are tracking as we have finished our first quarter on an annual basis. The unrealised value improvement was 14%, and we've lost some of that in FX over the last 12 months, which means that the LTM performance, despite the volatile markets and the issues that we have seen coming through in particular in the public markets, has been good with 10% of net annual performance in Private Equity here over the last 12 months.

Drilling a little bit into the underlying portfolio companies and the underlying portfolio, we think that most of our portfolios actually are performing well, and you see that reflected here in these green and yellow dots signifying operational performance of the 10 largest investments of Apax Global Alpha in Private Equity. I think the relief is that we don't have a red dot amongst these top 10 investments. If you then flip to the right side of the chart you can see the overall Private Equity portfolios metrics in terms of key performance indicators here of Apax Global Alpha's portfolio, and you see healthy growth both on revenues and in the profit line for the portfolio. Revenues have grown with over 6%, profitability has grown to over 9% here, and we feel good about the operational performance of the portfolio overall. That has been the reason for the uplift in value in the portfolio. Also, recently despite that actually the valuation levels applied to our portfolio companies and applied to our portfolio companies' EBITDA in line with the market developments in the public markets in particular, have come down from 12.4 to 12.1x EBITDA in the past three months.

With regards to the most recent activity, I've talked about the announced acquisitions of Q1, one in Engineering, one in a spin-off from Becton Dickinson, and I've talked about the present multiples for the two of those. I haven't talked about the divestments yet that have been made in the first quarter, all of which have been at a gain, some of which had been at a gain which is quite substantial. Obviously most notably King* here with a 67% IRR over about 10 years, there was a 90x money investment, not necessarily a common return. But also with one of our more recent investments here which was big in Apax Global Alpha, Rhiag, this automotive spare parts distribution business in Italy, we made about 3x money in two years, 71% IRR. Then other returns pretty healthy as well.

Our investment flow from Apax Global Alpha in the second half of 2015 into Private Equity investments has been good, and so have the returns been, and I'm proud in particular about the returns in the first quarter here, €25m of cash flow back to AGA from Private Equity, because there was already a quarter influenced by market volatility, and our ability to continue exiting ripe investments in that quarter is a noteworthy fact. The portfolio's performing well, as I said, according to most indicators, and I don't see the operational performance slowing despite some observations in the market that the US is slowing down, I do not see that notably in our portfolio yet.

With that I'd like to hand over to Ralf again who is going to drill a little deeper into the Derived Investments.

Ralf Gruss

Thank you, Nico. Now Nico's covered the Private Equity side of the portfolio what I would like to do is to give an overview on AGA's current Derived Investment portfolio, but before doing this I thought it's worthwhile spending a couple of minutes on highlighting some of the typical characteristics a Derived Investment often has.

And as I mentioned in my prior session AGA's investment strategy, how Derived Investments are created and sourced through the Apax Sector teams and the Capital Markets team, this is really just to give you an idea as to what could be a typical Derived Investment that ends up in our portfolio.

So what are these typical characteristics? I mean first, any Derived Investment is very, very, very likely in one of our four core sectors, and the reason for this is a very simple one, as the insight we use to evaluate Derived Investments is ultimately sourced through our sector teams and the insight is sourced from our Core Private Equity business, the sectors that AGA would invest in in Derived Investments are by definition the same that we would invest in through our Private Equity business.

Second, a Derived Investment is an investment which doesn't fit the investment criteria or investment strategy of the Apax Funds. Where an investment that our sector teams develop falls within what our Apax Funds would usually invest in those investments would go into the Apax Funds and AGA would have exposure to them through their commitments in those funds.

Third, a typical Derived Investment is usually a non-controlling Listed Equity investment or a debt investment. On the equity side we are focusing in Listed Equities, these give us the liquidity that we would like to have in the Derived Investment portfolio but also the type of investment and the investment style we have for Derived Investments, contrary to the approach that we have in the Apax Funds, make Listed Equities more an investment for the Derived Investments.

'*Note slide refers to returns gross IRR to the relevant Apax Private EQUITY Funds as of 31 March 2016, including unrealised value and total realised proceeds.

The holding periods that we have for Derived Investments is shorter than what we typically see on the Private Equity side, usually we would say the whole period for a Derived Investment is between one and three years.

And as I've already mentioned the Capital Markets team plays an integral part when analysing debt investments for AGA, given the expertise that they can bring to the table. And usually we would be looking for value opportunities when doing a Derived Investment and across the portfolio we are aiming to achieve target returns of roughly 10% to 12% for debt investments and 20% to 25% for equity investments.

So with this in mind let's have a quick look at the current AGA portfolio. Derived investments represented about 48% of AGA's portfolio at the end of March, the majority of the Derived Investments are in debt and they had a value of €320m. The minority of the Derived Investments are in equity investments which represent 10% of the total investment portfolio or as Derived Investments are 48% of the pie, it's about 20% of the Derived Investment portfolio with a value of €81m.

Now whilst these percentages can of course vary I believe the current structure of the Derived Investment portfolio is actually quite typical clearly with the majority being in debt and the minority of the investments being in equities.

Now for the portfolio composition of the Derived Investments and the operational performance in a bit more detail, and some of you who had followed our Q1 results might have seen this chart before, but let me briefly just go through it again. The structure of the portfolio has been quite stable over the last months, if you look at the top 10 investments which we have in the Derived Investments they are also the same that we had at year end but for one company, Answers, which has dropped off the top 10 due to fair value adjustments to the debt positions that we've had since the year-end.

That top 10 slot was taken by another company, also starting with an A, Advantage Sales and Marketing or ASM. ASM is a former portfolio company of the Apax Private Equity Funds, it's a sales and marketing company in the United States with a workforce of in excess of 40,000 people. AGA invested in the debt of ASM when it was sold to two other Private Equity funds.

More generally in terms of the portfolio structure the portfolio is well diversified, there are 29 positions in the Derived Investment portfolio at the moment, and if you look at the percentages here none of the investments in Derived Investments is more than 8% of the Derived Investment portfolio, and again as Derived Investments is 48% of the total investment portfolio, this means that no single Derived Investment represents more than 4% of AGA's total NAV.

Now a couple of stats on the debt portfolio and the equity portfolio on the right hand side of this chart here. Starting with the debt, the average yield to majority of debt investment was 11.9% and the average income yield was 10.1%. In the latter the 10.1% income yield that we have highlights again how the derived debt investments are a key income generator at the fund level to support the dividend that AGA pays out to its shareholders.

Now the debt derived investment portfolio has generated a solid LTM EBITDA growth of 3.7%. As you would expect for every portfolio this number is a mix of some companies that are growing very strongly and also a couple of them which are experiencing some softer trading environment at the moment. And just to give you a sense the majorities of the companies with slower growth are operating in the digital space in retail or who have some sort of energy related and customer exposure. Some of the stronger performing investments operating in the software services or the healthcare space, but as I said it's really a mix year.

The equity investments have performed very nicely in the first quarter, from an operational point of view the LTM earnings growth has picked up to 17.3% during the quarter whilst the PE multiples have declined to 18.8x despite this higher growth.

Now if you look at the higher growth or the absolute growth of the listed equity portfolio this is also a reflection, we're going to see this later on, of the relative way that some of our equity investments have here been driven by the fact that they are based in China and India.

Now I'd like to give you a quick overview on how the Derived Investment portfolio is diversified across sectors and geographies, you can see this here on the chart. As I mentioned before AGA's Derived Investments are in the same sectors as the Private Equity investments so no surprise here, you can see Tech & Telco as well as Services is a bit overweight at present and also for the reasons that Nico has just mentioned in the Private Equity Review, but really you should keep in mind this is just a snapshot in time and obviously these allocations can vary.

About half of the Derived Investments are in companies which are currently portfolio companies of the Apax Funds, and again of those investments the vast majority are essentially AGA's investments and debt positions where the Apax Funds are owners of the companies.

The AGA Derived Investment portfolio is currently overweight in North America, largely driven by its debt investments and this is the reflection we talked about of the relative investment attractiveness we see for these junior debt markets.

The India and China investments are equity investments only so no debt investments here, and especially in India we were able to identify a number of attractive opportunities recently in listed equities where our view on the fundamental value of the company was really differentiated where you were able to buy those companies in the public markets.

Now maybe a quick word on the structure of the Derived Investment Debt portfolio so this is debt only as this is the largest part of the portfolio. The portfolio is overweight in the more junior tranches of the capital structure. Firstly the proportion of the portfolio is only 17%, secondly loans and bonds are 78% in total, and 5% is invested in a PIK instrument. And again I believe we as Apax are very well positioned to invest in those parts of the capital structure because the way we approach Derived Investments for AGA and our Private Equity background puts us in a unique position to understand value, especially in that part of the capital structure which is sitting between the senior and the equity.

You need to have a strong view on value here to form a view on pricing of those instruments and as we are working very closely with our sector teams in developing and creating these opportunities we believe we're well positioned to form the view. Most of the debt portfolio is cash pay and as I said there is one position which is a PIK instrument.

In terms of currency and type of instruments the vast majority of the portfolio is floating rate and denominated in dollars and the former obviously mitigates in interest exposure and the latter is really a reflection of the geographic portfolio that the portfolio has at the moment.

Now the derived debt investments by AGA and its predecessor vehicle have had a strong historic track record, and just to remind everybody on the numbers, about half a billion euros were invested in Derived Investments, and roughly €200m in equity investments since inception; and this was done by making 62 investments, about half of it, 30 in debt and 32 listed equities. Now looking at our stats since the IPO a total of €190m were invested in

Derived Investments of which €146m went into debt investments and €44m went into equity investments. Now with six transactions in debt and four in equity the average transaction sizes have been around €20m for debt, €10m for listed equities since IPO.

In terms of the realised performance if you look at it since inception both debt and equity have delivered a very strong performance and very attractive IRRs close to 30% or 30% for the debt investments.

Now stepping back from history more with a view towards the last 12 months we've also cut the data here again to show NAV and returns over the last 12 months. The last 12 months obviously have been very volatile as we now know starting really in the summer of 2015 with increasing concerns around the future development of China, commodity prices collapsed and especially the junior debt markets in the US became a lot more difficult towards the year-end and during the first quarter. But despite that market drop AGA's Derived Investments have shown a very robust performance of 1.8% there was a big impact here on currency, primarily the depreciation of the US dollar against the euro. If you were to strip out that depreciation on a constant currency adjusted basis the returns would have been 5.2%.

The primary driver of these returns was income generated from the portfolio and the realised gains during the period. The unrealised losses you are seeing here is really driven by mark-to-market adjustments in the Derived Debt Investment portfolio, €15m and the decline in listed equity share prices of a total of €6m.

In terms of NAV this increased from €317m to €401m and the primary driver here was the deployment of the additional capital that has been raised during the IPO into Derived Investments together with the return movements that I've just described. Also please remember when we talk about adjusted NAV this is post reserves for performance fees and in light of the unrealised movement which we've had in the portfolio there was a positive effect of €7m from the performance here itself.

Now to conclude that section let me also touch upon the most recent investment activity in the Derived Investment part of the portfolio. During the second half of 2015 AGA has taken advantage of the market volatility, especially making new investments in Derived Investments. If you look at the right hand side here of the chart you can see that €63m and €111m were put into new investments during Q3 and Q4 2015. In the earlier part though of 2015 during Q1 and Q2 where valuations were very high AGA took advantage of valuation levels to realise €26m and €52m in Q1 and Q2.

Just briefly on the recent new investments and exits in the first quarter, let me start with exits. Greene King is a UK pub company, some of you might know. In 2014 AGA had invested in Spirit Pub which was subsequently acquired by Greene King. The original investment thesis here was to invest behind a secular trend of more eating out; that has played out very nicely and it was turbocharged with the synergies following the acquisition of Spirit by Greene King and AGA has, by exiting in this investment, now realised a 49% IRR on this deal.

Zhaopin was an investment in one of the leading Chinese online job portals which was demonstrating a strong top line growth, following its original investment AGA has used valuation spikes of the last bonus to sell out of Zhaopin, fully exiting the position now in Q1 2016 and realising an IRR of 36%.

On the debt side there is one exit, Physiotherapy Associates, that was a debt investment sourced through our Healthcare team which knew the management team of the company. The company has a background that it went through restructuring in 2013, and AGA then participated in a new debt issuance that the company undertook following that. The thesis was very much centred around the premium debt investors were aiming to claim that point in time, a lot of the company's history, it was a segment in the market that we understood well from a healthcare perspective, and we got a lot of comfort from knowing the management team that was running the company. The debt was paid in 2016, and AGA achieved an IRR of 16% of net investment.

In terms of new investments, two new investments in listed equities during Q1, one in Sophos, the IT security company, the other one was to top up AGA's exposure to Strides, the Indian pharmaceutical company. In Sophos the view that was taken was the valuation had dislocated in the middle of February, giving AGA a very interesting entry point. And with Strides we just continued to believe that AGA is backing very high-quality manager here in a long-term secular growth industry, and therefore recommended an additional investment for AGA here.

Now, this concludes the Derived Investment review, and with that I'm handing over to my colleague, Salim, to start the sector presentations and talk to you about Tech & Telco.

Salim Nathoo, Partner, Tech & Telco

Thank you, Ralf, and good morning everyone. My name is Salim Nathoo. I lead our Tech and Telecom team. I've been at Apax 17 years, and like a lot of people joined from McKinsey where I spent 4 years mainly doing Telecoms. I also have some industry experience at IBM, I could code as a kid, and also at a cable TV company.

And at Apax I've just done Tech and Telecoms for 17 years and over the last 10 years led 8 or so buyouts, of which 6 are either fully or mainly exited.

More broadly our Tech and Telecom team consists of 16 investment professionals, of which 6 are Partners. Our 3 core hubs are New York, London and Mumbai. It's an experienced team with over 14 years average tenure per Partner at Apax, and over 20 years average career experience.

So let me dive into: how do we do it? What's our secret sauce? Tech and Telecom is a vast area. It covers trillions of dollars of the economy and it's pretty diverse. You can't know what's going on in a European mobile operator and an analogue semiconductor company, it's just too much for any one person to know. And so you have to sub-specialise in subsectors.

And every year we sit down as a global team and we plan out what are going to be our focus areas for the upcoming 18 months, where do we see value? And for the last 7 or 8 years we've had three focus areas, and on the next two slides you'll see how we split out both the tech world and the telecom area. But those three focus areas have been: software, IT services and European telecoms. And they've been fairly consistent. Now, we've had certain times when one of those subsectors is more attractive and others are not, but those have been our focus areas.

Each of those subsectors then has about 5 investment professionals who are assigned to really get to know the area. It's their job to work out the trends; to build a network, to proactively go out and hunt for deals and really form deep expertise that will hopefully enable us to make better investment decisions. And what we've found is that once you have critical mass in a subsector it's a virtuous cycle, because what happens is: deal flow actually comes to you, either directly or through intermediaries because they just know your name in the space. Secondly, when it comes to evaluating an investment you have the network of advisors, you obviously have that expertise with the real-world knowledge of having made investments in the space. Then post deal you have the network of managers who can come in and change things and also realising what works, what doesn't work and what levers to pull, and of course then when it's a good time to exit. So this really becomes a virtuous cycle when you've got to critical mass in our sectors.

And our strategy really has worked. We've done on the PE side 6 deals in software, 6 deals in IT services and 6 deals in European telecoms. And in each of those areas we're very well known in the marketplace and have a strong market position with the industry participants.

And this strategy is also working in the current times. As Nico said, it's tough out there, it's tough to find value. But in 2016 we've announced two deals: one Engineering, which is an Italian IT services play, very much in our core sector, which we acquired at a very attractive price of about 7x EBIT. And the second is in the software space, a company called Duck Creek, that's an insurance software company. It was actually a proprietary deal; it's a carve-out of Accenture. And Accenture will retain 40%; we'll have 60%. So we are able to find value and this strategy is still working, despite these difficult markets.

I mentioned at the beginning that what we've done over time is pivot where we're focused within the subsectors. So in the early to mid-2000s we found a lot of value in cable and satellite, and we did deals like Inmarsat, Intelsat, Kabel Deutschland. Then what we started to find is those values started to go up. Then the next phase was European telecoms, and we did some very successful deals in that area, Bezeq, TDC etc.

Then that started to get pretty expensive and we found better relative value on the tech side, in particular software. And you saw us do Sophos and Epicor, which with hindsight look like extremely attractive prices we got in. But then we started to see the software sector overheat and we shifted our focus to IT services. And over the last 2, 3 years we've done 6 deals in the IT services space.

If you were to look globally, Apax has about 40% market share of all IT services deals above $400m, which is pretty strong, and it goes back to this virtuous cycle thing I was mentioning.

We've also used that subsector knowledge on the derived investment side. Often it's when we're doing detailed due diligence on targets. It might be through our own portfolio. But we have been able to use that knowledge to generate attractive ideas, both on the debt and listed equity side. And we've done five deals on the derived side in software, seven in IT services and three in European telecoms.

So now let's turn to the track record, and our track record has been strong both on the PE side and the Derived Investment side. Apax Funds have invested about €6.2bn on the PE side in 21 buy-outs since 2001. And AGA has invested €188m in 19 investments on the Tech and Telecoms side in both debt and the Listed Equity side.

On the Derived Investment side the realised returns are 1.3x at a 34% gross IRR on €58m of invested capital. And we've had some attractive exits, such as 167% IRR on Kabel Deutschland, 140% IRR on Equinix and 211% IRR on Persistent.

On the PE side we generated returns of 2.7x at a 44% IRR on €3.2bn of invested capital. We haven't lost money on any deal, and that's something as a team we're very proud of and want to continue for our investors. But we've also had several deals north of 3.5x, such as iGATE and Intelsat, but also encouragingly the recent exits such as iGATE and Orange were all done at attractive IRRs.

Tech and Telecom represents 31% of current AGA net asset value, of which 18% is the look-through through AGA's PE investments, and 13% through Derived Investments. The highest value positions on the PE side in AGA are our recent Apax VIII investments: Evry, GlobalLogic and Exact. And all of those have got off to a good start.

On the Derived Investment side the three biggest positions are second lien debt in our portfolio companies, Exact and Epicor, and an investment in the second lien debt of a US software business called Compuware, which we knew from our private equity activities, we'd looked at that business.

I'll now dive into two case studies: one of the PE side, GlobalLogic, and one on Derived Investments, Telecity, so you get a feel of how we think about things and how this works in the real world.

GlobalLogic was a 2013 deal, so done in a time when prices was fairly high. And it's one of the best performing deals in Apax VIII. It's a leader in providing outsourced software product development services to companies across the world. It's based out of San Jose, California, with the engineers based in three main delivery locations: Central and Eastern Europe, India and Argentina. Already that says typical Apax deal in many ways given the global footprint. But it was a more typical deal in other ways too. We identified early the niche of outsourced software product development for two reasons: one, because of our deep subsector knowledge of IT services; we went out there and talked to a lot of people about what was the next hot thing. And secondly because we had a portfolio company called iGATE which had a division that did this, and we saw the traction that that was getting.

So, what did we do? We went out and met every private company we could in the space. And actually first met GlobalLogic in 2011. At that time no deal to be done, the shareholders didn't want to sell. But by 2013 that had changed, and we engaged with them seriously, well ahead of there being a formal process.

As is the case today, the shareholders decided to appoint a bank and run a process. But by that time we had so much knowledge of the business, we were management's preferred party that we were in an extremely strong position. And so when it came to the process there were a couple of strategics that were approached. They fell over, for a variety of reasons, and we were in pole position to acquire the business. And Apax Funds were able to acquire this business at 8.7x EBITDA. And this was for a business growing in the mid-teens. And we had real access to this business over a nine-month period, and a value creation plan in place that we were ready to execute on day one. So this is very much a typical Apax deal.

The investment thesis was relatively simple: to buy a good, but I wouldn't say fully polished, company, in a market set for significant growth at an attractive valuation. And then do two things; achieve faster growth, and then through that achieve a re-rating, and hopefully an exit, either via an IPO or a trade sale.

So why was this space set for significant growth? Well, the supply and demand drivers here are very strong. Let's take a company like a Medtronic, which is a GlobalLogic client. Medtronic are the people who do medical devices, so pacemakers. 10 years ago a pacemaker was just a hardware device, and it had a bit of software in it and it worked for 10 years, the surgeon took it out, replaced it and that was it. Well, today that device has an incredible amount of software in it that communicates wirelessly with the outside world. And by the way, you can hack a pacemaker – I don't know if any of you have seen the show Homeland – but you can actually hack it. Not only that, it spits out a whole bunch of data to the physician, so the physician can know whether you're having a heart attack before you can.

Well think about the software capabilities you need as Medtronic. You're based in a place where it's not easy to get software talent. They don't really have this in their DNA. So they go to a third party, a company like GlobalLogic to help them with their software product development.

And that coupled with the supply/demand imbalance, the US will produce about 40,000 net new software engineers a year. The net new demand is something like 120,000. Well, if you're Google, Facebook, Amazon, that's fine, you pay the incredible salaries that developers demand, but if you're Medtronic, where do you go? And so GlobalLogic really is playing into an attractive trend and it's able to provide those capabilities to its customers at attractive prices because it's doing it in lower cost geographies, like Central Eastern Europe, India and Argentina.

So, clearly a space set for growth, but we were able to buy this at 8.7x EBITDA. At a time, there were only two comparables out there that had gone public, and the market really hadn't woken up to the potential of this space. But over the last two years, those comparables have performed really well in the public markets and they've re-rated now to the mid to high-teens, and remember, we bought this at 8.7x. So this is a deal where not only have we got earnings and revenue growth, but we've also got a large potential for multiple expansion.

So what did we do with the business and how has it transformed under our ownership? Really we set three key priorities, and there were three pillars.

The first and foremost was recruiting a world-class management team and Board. This was a business which actually had a great CEO. The problem was, he was very internally focused, because the people round him weren't great. He did not have a good CFO, a good HR head, a good head of delivery. He needed people round him who could take care of that so he could get out into the market and sell. And so we really helped him recruit a world-class team that enabled him to do what he was great at, which was to sell and evangelise the business.

In addition, we recruited a world-class Board. Our Chairman is Sir Peter Bonfield. Peter was known to us through our network, and to give you an idea of the sort of companies he sits on the board of, Ericsson, Sony, TSMC, multi-tens of billion dollars of companies. So you might say, "Well, why was he interested in this?" Well, one, he saw the trend. He saw companies like Ericsson and TSMC and Sony needing this service. He liked the CEO and he liked us, and again, because of our deep network, we formed relationships with the right people.

And what do people like this do? Well, this is a B2B business so Peter can provide introductions and air cover to large customers. In fact, the business has won a very large contract with Ericsson, which he certainly helped with introductions and air cover. So we've been able to really up the game in terms of the quality of the Board and the management team.

The second thing we did was invest for growth. We actually took the decision in the first year in investment to hold EBITDA flat, and we put real money behind accelerating sales and marketing spend, which we increased over 60%.

And then thirdly, strategically we focused the company away from more mid-market software customers, which they tended to have when we bought the business, to higher quality Fortune 500 companies, like Ericsson, McDonald's and Verizon.

And on the right, you see the result. Organic growth has accelerated from 13% to about 20%. The quality of the business has accelerated materially. As I mentioned before, it was mainly focused on mid-market customers, and today it's much more focused on large Fortune 500 customers with a lot of growth potential.

We're not only able to do that with accelerating growth, but we're able to do that with expanding gross margin, taking gross margin from 37% to 40%. It sounds easy, but a lot of work, and I think the important point was, day one we had all of the value creation levers in place, that we knew what to do to get to this.

And here you see the results, and so far it's been a great story. This is a business with a March year-end and what you see is very significant acceleration on the top and bottom line. We're now starting to turn our attention to inorganic growth. GlobalLogic's just acquired a business in Poland and we'll be looking to do some more acquisitions after this. And more broadly, we see a good outlook ahead. As I mentioned, there's very strong demand from clients out there across the globe and some good opportunities indeed with our own portfolio, which our Operational Excellence group is helping drive.

And this investment could make both an interesting IPO candidate. It's growing at a similar rate to the comparables, it's got some good things versus them, so I think we can position it well. Or, indeed, it could make a good strategic exit. It's scarce, this is the largest pure play private asset out now in this space, so we have had some inbounds from strategics.

So, all in all, good so far, the thesis has played out, there's still more work to do, but going well.

Now let's shift gears and talk a little bit about the Derived Investment side and maybe talk about Telecity, and how are we using that deep subsector expertise to also create value on the Derived Investment side.

Firstly, what is Telecity? It's Europe's leading provider of carrier neutral data centres, with 37 facilities across 11 countries. Unlike some data centre providers, like Amazon, Telecity has data centres in strategic locations, because it has them close to stock exchanges and things like that, where people actually value speed. And not only that, it has many internet service providers and telecom companies interconnecting, which means you get faster speeds and higher availability, which is key for those kind of companies, so it really has scarce assets.

And we've been doing research on the European data centre markets through our PE activities and we thought, having done a lot of work and met a lot of companies in the space, that this had a lot of tail winds behind it and the supply and demand dynamics were going to be strong. And on the bottom part of the chart, you see mid-teens growth. And as Ralf said, we took a time when there was a bit of volatility in the stock, that seemed to us that it was more sentiment-driven than fundamental-driven, to take advantage of that.

It was trading at a low end of its historical range, at nearly a two turns discount to peers that were of similar quality. And we said, "Look, even if this thing doesn't re-rate, then we'd probably get 15% earnings expansion, and so we'll get a decent return on that, and the juice will become if we can get either a re-rating or a strategic exit," and we thought, "This is a scarce asset and there's a reasonable chance, one never knows, that this could get taken out by a larger strategic." And that happened.

On the next chart you see the results. The view that this was a high-quality exit, that this would be taken out by strategic played out. Perhaps a bit earlier than anticipated, it was only 5 months, and of course we saw that – no we didn't! – but sometimes you get lucky in these things. And Equinix announced it was acquiring Telecity, which delivered an IRR of 171% after five months, so a great result. But again, an example of how we're using our deep Private Equity subsector expertise to generate alpha in Derived Investments.

So that's it from me. I'm going to hand over to Steven, but hopefully that gives you a flavour of how we do it in the real world. Thanks.

Steven Dyson, Partner in Healthcare

Good morning everybody. I think I'm what stands in the way of you and your cup of coffee! But before that, I'm going to tell you about Healthcare.

I'll just introduce myself. I am Steven Dyson, I'm a Partner in the Healthcare team based here in London. I've been at Apax for 16 years. I've always focused on the Healthcare space. Globally, we have a dedicated team of 16 professionals, based predominantly in London and New York, and the team has a real range of backgrounds. I have a scientific background and have worked in the pharmaceutical industry. We have medical doctors, people with operational experience, consulting, investing; and it's really this diversity of experience which gives us a wide range of viewpoints within the team when we're looking at potential investments, and we think that helps us really to come up with a better answer.

So I think the first question I wanted to tackle is why do we think that Healthcare is an attractive space to invest in? And first and foremost, Healthcare really is a growth sector with some pretty attractive fundamentals. I think everyone is probably aware that healthcare consumption is rising. In the Western markets we've got ageing populations, and also innovation. Innovation is driving new treatments, new potential things that you really couldn't do even five or ten years ago, and that's driving increased demand and volumes. And different themes in developing markets, as people are getting wealthier they're able to access care that wasn't previously available to them, and that also drives increasing demand to healthcare.

Now that all sounds great but it does create a problem, because historically, particularly in the West, it's the government that's been funding all of healthcare, or the majority of healthcare. And so with this ever increasing demand, and at the same time there's a squeeze on government spending, it's leading to pressure on healthcare budgets. The phrase now is 'to do more for less.'

Now there are a number of ways that governments are trying to do more for less and we think that this is one of the key drivers for how we see opportunities for us for investment. So the first and simplest is just to cut reimbursement, we'll just pay less for certain procedures. Now they're doing that to try and drive and force their efficiency savings into, you might say, the rather antiquated healthcare system.

The second way that people are doing is the rationing. You're seeing this probably more in Europe, where certain treatments and drugs are just no longer covered. There are treatments that ten years ago, varicose veins, that the NHS would have paid for, they don't now. If you want it, you have to pay.

And then the final third way, which is a little bit more in the US, is higher co-pays, so the patient has to pay a proportion of the cost of your treatment, so if you really want this more expensive treatment, you have to pay more yourself, which is making the patient more accountable for their treatment.

And these last two are really driving more consumer accountability. If you're having to make decisions about what treatment, whether you're going to pay for it yourself, or a higher proportion of it, then you're starting to be more interested in your own health. And obviously the rise of the internet doctor. I'm sure everyone's typed their symptoms into Google and out has popped some obvious diagnosis of themselves, which they then promptly take to the doctor and demand a particular drug. But again, it's a sign that the consumer is becoming a more active patient than the days when you just looked at the doctor in the white coat and said, “What do I do please?”

And so it’s really these three market trends that we in the Healthcare team have developed our four core investment themes. And the Apax Funds look to make investments in companies that play to at least one or two of these, and let me just take you through them. The four themes are healthcare efficiency, consolidation, globalisation and consumerism. And I’m going to take you through each one in turn and explain how the Apax Funds have invested behind them.

So if we start with healthcare efficiency: well, this theme plays directly into the drive to reduce cost and do more for less. And here the Funds look to back companies that provide a product or a service that directly reduces costs to this healthcare system.

A good example would be the Funds’ investments in the global wound care company Acelity. Acelity’s core product is a very advanced wound care therapy which treats very severe wounds. By using the product, patients are able to recover faster, are able to be just discharged from hospital sooner, and so save the hospital a significant amount of money, and you can imagine how expensive it is to keep a patient in hospital when they could be otherwise at home.

Another example, which is both a Fund investment actually and a Derived Investment, is the Fund’s investments in Genex. Very different. This is a US services business which has 1,500 nurses across the US; and what these nurses, very experienced nurses do, is they help get injured workers back to work faster. Again, saving money, both in medical costs, but also indemnity payments that the employer is having to pay them while they’re out of work.

The second theme is consolidation: many sub-segments of the healthcare market remain extremely fragmented. This gives a lot of opportunities for buy-and-build thence strategies. Typically, you can buy smaller companies at lower valuations and drive synergies to create significant value. I think this is one of the themes on Nico’s chart under M&A. But I think in Healthcare there’s a little bit more to this theme. As the healthcare industry tries to become more efficient, there’s an increasing drive to try and reduce the number of suppliers and to consolidate purchasing. A scale player with a significant footprint in a particular category, in our view, it’s at a natural advantage to capitalise on this trend, and so gain more market share, further increasing the value of consolidation.

A good example of this is the European lab market. This is still an extremely fragmented market. Just to give you a flavour, there are still over 5,000 independent labs in France. Now the market has been rapidly consolidating, with two of the main consolidators, and you’ll see on the slide, being Unilabs and Synlab, both of which AGA has invested in.

If you take Unilabs as an example, it’s headquartered in Switzerland, but it has operations across 10 European countries. And since the Funds’ investment in Unilabs, it’s completed over 60 acquisitions of other labs. That increase in scale has enabled Unilabs to drive better terms with its suppliers, helping its margins, but also it’s been able to win contracts where the customer wants a significant footprint in multiple European countries, helping to drive revenue growth being faster.

The third theme is globalisation. Again, the healthcare industry has evolved in a somewhat local level, which then grew to a national level, a regional, and now we’re seeing an increasingly global level. But we still see many US product companies which have the vast majority of their sales in the US, and vice versa, European companies with the vast majority of their sales in Europe. In both cases we often see companies which are struggling to break into new markets and move from a regional company to a global one.

With the Healthcare team's international footprint and our cross border collaboration, we think we're uniquely placed to help these companies really grow aggressively into new markets. Acelity, again, is a good example. When the Funds bought the company, over 85% of the revenues were in the US, whereas we'd expect for a typical multinational like that to be 50%. Since the investment, Acelity has grown aggressively in Europe and emerging markets and it's launched its products in China, India, Brazil, Turkey and others. There's absolutely no reason why these products, which work highly successfully in the US shouldn't work in these other markets, and we've demonstrated that in the track record.

And the Apax Fund's most recent Healthcare deal, signed not closed, of the Becton Dickinson's Respiratory Solutions Business, in which I'll come on to talk about as a case study, it's playing to exactly this theme.

And then, finally, consumerism: so this theme comes directly from the increasing role of the consumer, or probably the patient is playing, in managing their health. In Western markets, we're looking for products and solutions in areas that governments or insurers don't cover. Our recent investment into Ideal Protein plays directly to this theme. Ideal Protein is a weight loss company with a very differentiated product offering and also a novel business model where it sells its products really through the doctor as opposed to direct to consumer.

Then in emerging markets funding self-pay anyway and so here the big challenge really for patients is to determine quality. The level of regulation is much lower in our experience in emerging markets, and so your ability to know whether a service or a product is really high quality or not is tough, and so brand is really how patients are able to work out what they're getting and to select high quality products. And so we see a very not only underlying strong volume growth in these markets, but a shift towards actually higher priced more branded solutions as patients get wealthier. Alkem is an AGA Derived Investment, this is a trusted leader in the Indian pharmaceuticals, and it is growing fast as patients choose those brands that they can trust in.

So if I now switch to the track record. As you can see, we have a very long and established track record of successfully investing in Healthcare over many years. On the left hand side you can see the Private Equity track record. We've been investing actually into Healthcare for over 30 years and have invested over €4bn into Healthcare Private Equity deals, with a strong track record in exited deals, you can 2.6x money and 29% IRR for all the exited deals. And we've had success in multiple different subsectors and different geographies over a long period of time.

On the Derived Investment track record, obviously this doesn't have the same length and depth of track record but we're building that rapidly, we've now invested nearly €150m of capital deployed with AGA investing that. And exited returns of 1.2x money and 17% IRR, which given the portfolio has been heavily debt weighted. We think that's the beginnings of a strong track record, and I'll come on to talk about one of the exited investments on the Derived side.

Moving on to the current portfolio, you can see Healthcare represents 17% of AGA's net asset value. Again, on the left hand side you can see that Healthcare is 7% of the total. It's a bit of a lower proportion than some of the other sectors. I think as Nico mentioned, these things sort of go in waves. We had a higher exposure to Apax VII, which AGA has a lower exposure than some of the deals in Apax VIII; and obviously we've just signed a new deal which when that's closed will add to the private equity exposure for Healthcare for AGA.

On the Derived side, you can see on the debt side we've been successful investing in debt, predominantly actually into the debt of Apax Funds portfolio companies where we see significant opportunity where we really have an opportunity to understand in great detail. But also in terms of companies which we see through our other Private Equity work, like Synlab which is now no longer on this list as an exited deal.

On the Public Equity side you'll notice there's the high proportion of investments in emerging markets, and I think this is a theme that goes across all of our different subsectors, and particularly India, and we've found that there are more attractive niches and more pockets of value in these markets than in the Western listed markets over the past few years. That was different back in 2009/2010 when the PCV, which is the predecessor to AGA, made a number of successful investments in European and US medtech businesses when we felt the opportunities were actually greater in the Western markets than in the emerging markets.

So as I said, I'm now going to take you through two case studies so you can really see how the team puts the strategy to work. First, our most recent Private Equity investment out of the signed deal of Becton Dickinson's Respiratory Solutions Business; and second, a Derived Investment, AGA's investment in to Synlab debt.

So, first the Becton Dickinson's Respiratory Solutions Business. As I said, this is the most recent deal signed by Apax Funds in Healthcare, and we signed this in March, so a couple of months ago. We haven't closed the deal yet. This is a business which is currently the division of the large listed medtech company Becton Dickinson, and as I think we've mentioned, this is a carve-out transaction.

So, what exactly does the business do? Well, it researches, develops, manufactures and sells products to help patients with breathing issues all across the world. It's a market leader, and to give you a sense of the scale of the business, it has about $900m of revenue, about 5,000 employees, and operates in 20 different countries.

The business comprises three different divisions. The first is the Consumables division on the left, which is the largest. Hopefully you can see some of the pictures either on the screen or in your book to give you some flavour of what I'm talking about. This division makes over 20,000 different disposable respiratory products. This could be masks, nebulisers, warming systems which help make sure the air that goes into a patient's lungs is at the right temperature, room temperature, not too cold, not too hot. This division is a market leader in a reasonably growing market.

The second division sells ventilators. Again, you can see these. These are capital equipment products that breathe for patients who are not capable of breathing themselves, so these are really very sick patients predominantly in hospital intensive care units. But it can also help patients recovering from surgery, or there are particular special ones which help support new-borns or premature babies who can't breathe yet.

And finally, on the right hand side you can see the Respiratory Diagnostics division makes equipment and consumables for testing respiratory diseases. A typical one that's growing very fast is chronic obstructive pulmonary disease. Now, these can range from very small desktop spirometers, you know the thing you blow into very hard if you go and have a health check-up, which is rather on the basic end, all the way through to full body machines, you can see this poor man stuck in a box to really get a good diagnosis of what's going wrong with his lungs.

So, why respiratory? Why were we interested and why has the Healthcare team spent the last three or four years focused on this category? Well, firstly I think you can probably tell we think there's good underlying volume growth. Ageing populations, increasing incidents of respiratory diseases, some of it smoking related, pollution related. So we think it's got an underlying volume growth. And secondly, it's still a very, very fragmented market, and we think there's lots of consolidation potential.

The Apax Healthcare team, we looked at a number of different assets both in the US and Europe, to try and find a respiratory platform which we could acquire at an attractive price, and having had to turn down a number of assets, either they weren't good enough quality or the price was too high, we were able to identify Becton Dickinson's Respiratory Solutions Business. Just to give you a sense, Becton Dickinson is a $46bn global medtech company listed on the New York Stock Exchange and headquartered in New Jersey.

In March last year they completed a $15bn acquisition of CareFusion, and the respiratory solutions business that came as part of CareFusion was non-core for Becton Dickinson. Through our industry contacts and our work in this sector we had a strong suspicion that this was the case, and so we approached Becton Dickinson very early, before in fact they'd even closed the deal to buy the asset, and we were able to negotiate an exclusive partnership with them to carve-out the business in a proprietary process. Again, playing to really having a clear focus on what we're trying to buy and looking for the assets and being networked and plugged into the market.

So why were we able to secure a proprietary deal? Well, firstly it's that the team's experience and credibility in executing large global medtech deals, we'd already done Acelity, Mölnlycke, so we had a real track record in medtech. Secondly, all the work we'd done in the respiratory space and on the assets specifically, we were able to convince Becton Dickinson that we really understood exactly what the company was and what it was doing, both strengths and weaknesses, and so that we would be an easy partner with which to do due diligence. And third, and you'll hear more about this from Seth later, we had a very strong track record in executing carve-outs, really driven hand-in-hand with the Healthcare team and the Operational Excellence team.

This expertise and collaboration with the Operational Excellence team was key, because as we expected this carve-out was, and is, very complicated and it requires a whole series of transition service agreements building up a whole series of stand-alone functions. This is a complicated transaction. Then finally, another novel aspect to this transaction is that rather than acquiring 100%, the Funds have acquired 50.1% with Becton Dickinson keeping the rest. In our mind this creates very strong alignment for both sides to execute a carve-out successfully. Apax Funds retain full control, and Becton Dickinson gets to share in the future value creation.

So if we turn to the investment thesis it had four levers. First, we were able to acquire the business at an attractive entry multiple, and on a revenue basis it's significantly below the public peers, and this also applies on the EBITDA basis, and obviously still a complicated carve-out to be accomplished, but once we've done that we would expect a significant re-rating of the company.

Secondly, this asset has EBITDA margins significantly below its peer group. In our due diligence we were very focused on whether this was structural or could be fixed. This business has been a non-core division of its parent company for many years, well prior to the acquisition of it by Becton Dickinson. It has not received significant investment or management focus, and we think that with that management focus and investment we can bring the margins much closer to the peer group. Another big lever for value creation.

The third, I think we've mentioned this one before, again is to internationalise the business. It's a key theme in our Healthcare strategy. This business again, as you would expect, is heavily weighted towards the US, and yet the products are all approved and able to be sold across the world, and so we think again there's a big opportunity to grow faster.

And finally, the respiratory market is very fragmented. This was one of the key original attractions, there are no global multinational medtech companies which are strongly focused on this space. In fact, many multinationals have respiratory businesses like Becton Dickinson that they're looking to sell, so we think again there's a real opportunity to do some accretive M&A. And this in the medtech space is an area which is very synergy rich, so there are a lot of synergies to be had by adding other assets.

So in summary, we view this investment as a great showcase for the Apax Healthcare team's capabilities to source attractive opportunities in levering both the healthcare experience but also our carve-out capabilities with the Operational Excellence team, and the Funds have an exciting new medtech platform which we think have four clear levers to create significant value over the coming months and years.

So, that was our most recent Private Equity deal. I'm now going to turn to the Derived Investment of an exited situation, and that was of Synlab. Synlab is a Pan-European lab group. It was created by another Private Equity firm, Cinven, through their acquisition of two lab companies, LabCo and Synlab.

What was our insight at the time? Well, we had a really deep understanding of the European lab market. I've already mentioned why, it's because Apax Funds have been invested in the European lab space for many years through another Pan-European lab company, Unilabs. This gave the team extensive insight into the lab market, both the risks and opportunities and the relative strengths of both Synlab and LabCo as they're both competitors of Unilabs. We also knew the management team from our experience in the market; they had a very good reputation and were particularly experienced at implementing integrations following multiple previous acquisitions, and this would be the key to the success of the combination.

What was the rationale? Well, firstly we think labs are a fundamentally attractive business and actually have strong cash generation which make them attractive from a debt perspective. Secondly, the combination we thought had significant strategic logic, it was taking a leader in Eastern Europe and putting it together with a leader in Western Europe, and as we said before, we think that scale in healthcare is very important. And third, we thought that there were significant synergies, in fact more than were being marketed at the time, and from our knowledge of acquisitions that Unilabs had historically undertaken we thought that the synergies would be more significant and that that would create a bit of a cushion for the debt versus what was being marketed.

So we worked together with the Capital Markets and the AGA teams to determine whether there was an opportunity in the Synlab senior unsecured bonds at issuance. These bonds were being priced at a significant discount, as you can see, to the peer group. We did not think this made sense in the longer-term as Synlab was a very similar company to the peers, and if anything was more geographically diverse and with greater scale, and this created an opportunity for AGA. So, in July 2015 AGA acquired €15m of the senior unsecured bonds at issuance; and by December, probably slightly sooner than we'd expected, those bonds had traded up bringing the yield down much closer to the peer group, and really in-line with what the fair value was given the different maturity and leverage profiles, and so it was recommended to sell; and on the back of this AGA generated an IRR of 19%, so a good return for AGA.

So with those two case studies I will tell you that it's now time for coffee, so if we can be back again in 15 minutes. Thank you.

Tom Hall, Partner, Consumer

Welcome back everybody, my name is Tom Hall, I've been at Apax 18 years. For most of my time here actually I was a member of, and then latterly ran, the Media team and we disbanded the Media team about three years ago and I took over the Consumer team. And before I was at Apax I was a research analyst so a similar line of work to some of you in the audience.

Consumer is obviously one of the four sectors where Apax focuses its investing activities, both the Private Equity and Derived Investments, and we believe it's a good place to spend our investing time for three reasons. First it's very large and heterogeneous, secondly it's growing, and thirdly it's undergoing profound change.

So if we take those in turn: the Consumer sector's one of the larger segments of the economy, representing about 60% of most developed economies and rapidly taking share with almost all developing economies.

And it's huge, the Consumer industry in the geographies that we cover is around $24 trillion and it's very heterogeneous, and that's a word that Salim used as well for the Telecoms industry, true for Consumer as well. As we look at it, it comprises the whole retail industry, so shops, both offline and online, marketplaces, online and offline marketplaces, the leisure industry, so gyms and restaurants and consumer goods, food and beauty products. And the size and variety of the sector means that there's generally a good flow of large and actionable investments, either for Private Equity or Derived Investments.

Secondly, the industry's growing and whilst sector or subsector growth is certainly no determinant itself of good investment outcomes, the Apax Funds have often done well investing in businesses that have the wind behind their back rather than blowing in their face. And thirdly the industry is undergoing rapid change. And change, Nico mentioned this earlier, change is always interesting to us because it often provides opportunities for material value dislocations in the market allowing the Apax Funds or AGA to buy businesses or stakes in businesses below their intrinsic value, and that's obviously what we're looking to do, to buy things beneath their intrinsic value.

And also for the Private Equity activity it allows us to transform businesses ourselves through effective and active ownership. So I'm just going to talk about a couple of examples of obvious change at the moment, by no means the only examples and you'll be familiar with both. The first is technology. Technological innovation has been reshaping human behaviour for a very long time, pretty much since the invention of fire and today's no different. We live in a period of rapid change and that's having a profound impact on consumer behaviour and the businesses that serve them. All of this is very well known to you in your day to day lives; consumers today are enormously well informed, demanding, every day more willing to research and transact online, mobile devices, any time anywhere.

And just as a media industry which is what Apax has looked at a lot and what I spend a lot of my professional time here doing was massively disrupted by technology in the early years of the last decade, so the retail industry today is experiencing very significant structural change. And these changes, we've put some logos on the slide, they've allowed the creation of some very substantial new consumer businesses on the one hand over the past decade or so, Amazon and Netflix; it's also resulted in the destruction of some very substantial old businesses on the other, large segments of the print media industry and many well-known high street retail names which we seem to read about pretty much every day.

As well as technology we've also seen the rise of the discount segment, large discount businesses have already been successfully built in the airline industry and within retail in a number of different segments; in the food segment, fashion, general merchandise, we've looked recently at the proliferation of discount gyms and certainly gyms is not going to be the last industry to see the rise of the discount offering. These new lean operators often with materially different supply chains and operating models than traditional businesses are placing huge pressure on incumbents. And again like technology we've seen the creation of some very substantial new businesses, EasyJet, Ryanair, think of all the pound shop retailers that have flourished over the past few years. And then we can see in response to that how hard retail businesses for instance that are stuck in the middle or otherwise hampered by legacy find it to respond effectively to these challenges.

So where do we look to invest in all of that? The first thing I would say is that there is, unfortunately or perhaps fortunately, no simple set of instructions that we or indeed anybody can follow to generate excess returns. Charlie Munger once remarked, "It's not supposed to be easy, anyone who thinks it's easy is stupid."

So the question within the Consumer team that we attempt to ask whenever we look at any investment opportunity and this is true for Private Equity, it's true for Derived Investments, is why might Apax, in this specific circumstance, be able to generate excess returns. And if we don't have a common sense, reasonably plausible answer to that question then we think very carefully as to whether we're right to spend our time on the opportunity.

So what might be some good or bad answers to that question, why might Apax be able to generate excess returns? Well one bad answer, actually no answer at all, is it's a good business and it's growing. That, if true, will be an important fact about the business but it will tell you absolutely nothing about whether it represents a good investment opportunity or not. Indeed if it is reasonably obvious that it's a good business and it's growing it's quite likely to be a bad investment opportunity, or at least not one where we're going to be able to generate excess returns since the market may efficiently price in or more likely will overprice in at the potential for the business.

So if that's a bad answer what might a good answer be? Well, when Apax Funds buy any business, actually when anybody buys any business, they buy in a marketplace of one form or another. In an auction run by an investment bank, which is often how we've bought businesses within the Private Equity activity or from public markets, when we take a company private or indeed in bilateral negotiations with a seller. And we think that the best chance of creating excess returns are when the Funds or when AGA directly participates in one of two kinds of marketplace. Either in marketplaces that are themselves inefficient and stand a good chance of mispricing a business; or in marketplaces where we can sensibly believe that we have superior knowledge to other participants in the marketplace. So these two kinds of marketplace, either a marketplace and it's great to be in those where the marketplace is itself inefficient, or where we can genuinely believe we're smarter than other participants no more than other participants in the marketplace.

You might think that marketplaces for large businesses are always very efficient, it's not true actually, there are often large businesses we see traded where the marketplace is not particularly efficient and the business is not priced to perfection. An obvious example of that would be sellers who need cash who may not have the luxury of time to extract full value for an asset that they wish to dispose of. And management teams are a very important constituency in our world, they too can sometimes have an important voice in the determination of who's going to end up buying a business. And they will almost invariably have additional considerations in their mind on top of maximising value for the seller. Maximising value for the seller may not be top of their mind. And we're of course very happy whenever we find ourselves in marketplaces like this and indeed we try to get to marketplaces like this as often as we can. And I say that because I believe that the best money the Funds can make for investors, the best money AGA can make for its investors, and it's because it's the safest, is when we can buy things for significantly below their intrinsic value, there's nothing better than buying a dollar note for 60 cents.

Often times though the sell side of the marketplace may be relatively efficient, in which case we need to look to the buy side to our side for inefficiencies. In other words we need to be convinced that we genuinely know more than the other buyers active in the particular marketplace that we're in. And to me this is where sector and subsector knowledge as well as our Digital and Operational Excellence Practices are invaluable. And invaluable to me not necessarily because we've picked good subsectors to invest in, I think common sense will tell you that anyone can lose or make money in any subsector or sector. Invaluable to my mind because in the subsectors where we've spent substantial time and we've developed substantial networks of executives and advisers, something Salim talked about, we've got a plausible reason to believe that we can participate in a more or less competitive process and also form a better view than other competitors in the marketplace.

Two areas for instance within Consumer where we have I think good subsector expertise, one is fashion apparel, the Funds have done very well in this subsector over the years. In New Look in the UK, you'll be familiar with that business, and with Tommy Hilfiger. I think another area of some very strong subsector expertise for us is online marketplaces where the Fund and AGA actually have both had great successes with Autotrader in the UK, I'm going to come and talk about that in more detail a little bit later; and SouFun real estate marketplace in China. And the Funds are currently enjoying a very strong performance from Autotrader in Canada and Idealista real estate marketplace in Spain.

It's been a particularly fruitful subsector for us, we're going to continue to mine it, Salim was talking about the market share we have in IT services, I think we're in a similar position actually in online marketplaces, we've done more online marketplace deals than any other buyout fund on the planet.

And as well as those areas of subsector expertise within Consumer, two areas of distinctive capability I think for the firm overall rather than just for the Consumer team, the Operational Excellence Practice, Seth is going to come and talk about that a little bit later, composed of operational executives from a range of backgrounds, and the Digital Practice in which I sit as well composed of both investment professionals like me and members of the Operational Excellence team like Seth; and the Digital Practice brings to bear the very considerable knowledge and success that the firm has had in digital investments over the past decade.

We also spend a good amount of time searching for investment opportunities; so we spend a good amount of time in those subsectors where we had success. But we also look to deepen and expand our knowledge and network continuously. We're continually meeting with businesses and with managers and we do so both within those areas we've been successful and outside of those areas as well, because over time we want to increase the number of subsectors where we know more and we know more better managers than our competitors.

And this way over time we hope that we will find ourselves more frequently in situations where actionable investment opportunities, be they for the Private Equity or Derived Investments coincide with those subsectors where we can plausibly believe ourselves to have better knowledge and to be able to form a better view than our competitors.

So I'm going to, as Steven said, I'm going to describe briefly the investment returns and the portfolio composition, both for the Funds and for AGA and then I'm going to walk you through a case study for an investment that yielded great returns for both the Funds and for AGA.

This is our track record within Consumer. So taking AGA's performance first, with the Derived Investments first rather; a healthy return of 45% IRR and 2.5x invested capital on invested capital to date of €128m. And our fund investments within Consumer have generated returns of 32% IRR and 2.8x equity on equity invested of €7.1bn. What's driven that? If we look at our current portfolio within AGA, Consumer represents approximately 20% of NAV and that's split actually pretty much equally between Private Equity investments and Derived Investments; so 10% of AGA's within the Consumer portfolio, indirectly via the Funds and includes among other things the PE investments FullBeauty, the catalogue business in the US that we've invested in, Wehkamp, catalogue business turned online in Holland, Takko and Idealista. And then 10% of AGA's invested in Consumer directly and includes first a bunch of debt investments in buyouts led by the Fund such as FullBeauty, the senior in FullBeauty and the Rue21 second lien and I'm going to talk about a now realised and successfully realised debt investment by AGA in this category. And secondly investments in the capital of other non-fund investments where our fund work has led to specific insights such as the debt investment we made in Hema which is a Dutch offline retailer.

So that's the portfolio overall, I'm now going to talk about a specific case though from the Fund which also led to a successful investment for AGA directly which is a business you'll likely be familiar with in the UK, which is Autotrader.

Autotrader is a company which the Fund first invested in in 2007 and as you'll know it operates autotrader.co.uk, which is the largest digital UK automotive marketplace. The investment is now largely realised and it was a successful one at nearly 5x return in constant currency and on a large equity cheque as well of around €596m and substantially all of that is now realised.

I think for the deal there are four key messages. The first message obviously was just that this was a great deal. Two deals in fact since the Fund Apax Europe VII invested twice in Auto Trader: first the Fund bought half the company in 2007; the same fund, Europe VII, bought the second half of the company in early 2014.

Secondly, the returns came from a good mix of sources. So a complete transformation of the business – that's a word you've heard before and it's the theme throughout a number of the businesses we've looked at and we've been successful with – a complete transformation of the business, from publishing to digital. A further important transformation of the company over the past three years led by the chief executive we put in in 2013, Trevor Mather, and I'll come on to talk about that. I think the Fund bought right, both in 2007 and particularly in 2014; the business grew and it de-geared. So returns were a very nice mix of sources.

I think it's also a good example of how the Apax global platform allows us to do or to take experiences in one geography and replicate them successfully elsewhere. This was the first online marketplace deal that we did. It led then the Fund to do SouFun in the real estate marketplace in China in 2010. We also went to Canada where the Fund bought Auto Trader. And then most recently the Fund, Apax Europe VIII, bought Idealista, the real estate marketplace in Spain at the end of last year. The two deals were realised, SouFun and Auto Trader successfully; Auto Trader Canada performing very well, Idealista early days but also performing extremely well.

And then fourthly and finally I think it's also a good example of how the Private Equity business generates Derived Investments, since the second deal the Fund did in 2014 led also to a very profitable investment for AGA, which invested in the second lien bond that the Fund raised to part-finance that 2014 purchase.

This slide just sets out how the returns built up. Going from left to right: so, the Fund bought half the business at an enterprise value of £1.35bn in 2007, and then the Funds bought the rest of the business at an EV of £1.75bn in 2014. The Funds then floated Auto Trader just over a year ago, in March 2015, and at the same time sold two-thirds of the Fund's stake, so we realised 1.5bn of proceeds just over a year ago.

And then in March this year the Fund sold the great majority of the balance of its holding, realising a further €1.1bn. So, together with the €100m proceeds from a dividend recap that the Fund led in 2011 that means total proceeds to date of €2.7bn, and the Fund still has a small residual stake in the business today that is worth around €85m. So, you take all that together, €600m, about €2.7bn, so a capital gain, including the stake left in the business of about €2.2bn.

So I'm going to first talk about the initial deal investment in the business, the deal the Fund did in 2007. At that time Guardian Media Group was the 100% owner of Auto Trader, and early 2007 it ran a process to find a partner to really help them accomplish two things: one is to help them take some money off the table; it was by far and away the most valuable thing that Guardian owned. It also has the loss-making newspaper business, you'll be familiar with, and it needed to raise proceeds to fund that. And, secondly, I think they also wanted to find a partner who was going to help them capitalise the migration of Auto Trader Online, which I think they felt at the time was not going as quickly as it might.

We had been actively pursuing the investment opportunity for 18 months, and we'd done extensive work on the company with consultants, with existing and former Auto Trader managers whom we'd met with in that period of time, and also we'd built up a strong rapport with their buying manager who, if the Fund was successful in buying the business, we were going to put this buying manager in as Chief Executive – and indeed that's what eventually ended up happening.

I think in fact the 2007 and the 2014 deal share a characteristic with many of Apax's most successful investments, meaning a deal's set up where it's a specific situation that the Fund had been looking at it for a long time with a large amount of work done. So we'd had really two years of thinking about this investment before we actually made an investment decision. And that's an important correlator of investment success generally for the deals that we've done.

At that time, which is what you can see on the slide, Auto Trader was still a hybrid business, and it was actually relatively early on in the path from print to online, so when the Fund invested in 2007 two-thirds of Auto Trader's revenue came from printing and publishing. It published 13 regional magazines up and down the UK. It had substantial copy sales income, because people had to buy the magazines. It had 3 large printing plants and was doing indeed third-party printing. And it had a number of car titles overseas in Holland, South Africa and Italy, as well as within the UK a number of non-car titles.

So, to us, and I think to Guardian as well, there was a very clear transformation opportunity. And indeed between 2007 and 2013, as you can see on the chart, we worked with Auto Trader and we sold off all the overseas businesses and the non-car UK businesses; stuff we couldn't sell we closed down. We sold off or closed down all the printing plants, and we closed down all the magazines so that's what resulted in this chart here. By 2013 Auto Trader, from when the Fund originally bought it, it was two-thirds printing and publishing, by 2013 it was an entirely digital business.

And that is what the business is today an entirely digital business; no magazines, no printing. Far fewer employees, when the Fund first invested Auto Trader had about 3,000 employees, I think it's down to about 860 or less than 900 today. As well as a very different and far more educated workforce, so maths and computer science graduates rather than people straight from school.

And that was the story really of the first investment the Fund made between 2007 and 2013 about taking the business online.

If we turn to the next slide this is a story, if you like, of the second investment. Although the business had between 2007 and 2013 transitioned online we still felt there was considerable unrealised potential in the business. Particularly we thought that although the business had financially, if you will, transitioned online, it hadn't really transitioned culturally; it was still in the way it ran itself a publishing business at heart. And I mean by that that it was, among other things, a great business, but it suffered from a couple of things. It was internally siloed rather than collaborative. It was focused very much on product rather than customers. It was focused on control and process rather than empowering educated and capable employees to take decisions. From a technology perspective it was very overly dependent on external contractors rather than in-house, home-grown talent.

Notwithstanding it was performing fine. Indeed at around this time it was beating budget in the year. We took the perhaps counterintuitive decision to change management, and brought in a new Chief Executive, Trevor Mather, who is the Chief Executive today. Trevor has done I think, an extraordinary job since his appointment. And indeed I think that changing management a second time and appointing Trevor was one of the most value-creative decisions or recommendations that we made in our time with Auto Trader.

Trevor did indeed very successfully change the culture of the organisation. Culture may sound like a soft item, wrongly actually to my mind, since I think it's one of the hardest items of all, as well as one, that when you get it right, can create the most sustainable of all competitive advantages. So, he changed the culture for sure. That resulted too though, and Trevor should also be credited with incredible financial performance. So Trevor when he joined the business was doing about £113m of EBITDA minus capex; analysts expect it this year to generate about £175m of EBITDA minus capex. That's an entirely organic increase of 55% in just three years, no M&A, no nothing that's just running the business better. I think he's done a phenomenal job.

So we are indeed proud of Auto Trader. Not only has the Fund earned very good returns for its investors, but I also think we've served the company itself very well. Auto Trader is just a very, very different business from the business in which the Fund invested back in 2007. It's got a world-class management team and a simple, clear strategy. It's about as well set for success in the future as I think any company can be, and we're very happy to have been a part of that.

As well as the story of the company, though, it also led to a successful investment for AGA.

I talked about these two deals, the 2007 deal and the 2014 deal. The 2014 deal though actually led out of a long period of discussions with Guardian because from 2012 onwards we began to discuss with Guardian, who were then the co-owners of the business with the Fund, the possibility of taking full control of the business. On our side this was a business that we knew very well and was performing well and that we liked enormously; on their side they were interested to realise cash for their core newspaper operations. It took a long time, but eventually the situation turned into a transaction both for the Fund, the second investment, and indeed for AGA.

So, Europe VII had co-owned the asset. We had supported management to perfect its digital transformation in partnership with GMG for over six years, so certainly we felt – to go back to those criteria of marketplace – this was a marketplace where we were buying something that we really felt that we knew more than other participants in the marketplace.

Indeed our experiences with Auto Trader and an appreciation of the quality of the business had led us to focus intensively on other leading online marketplaces. So, the classifieds had become, and indeed remains, a core subsector for us. And by 2014 the buyout funds had invested in 3 classified players around the world: Trader, Trader Canada, and SouFun, and then subsequently invested in Idealista.

So, I think we had a unique and very high conviction view on Auto Trader. And the Fund finally agreed commercial terms with Guardian to buy the business at the end of 2013.

Now, certainty in the transaction, lack of conditionality in the commercial deal with Guardian as to purchase and sale, that was very, very important to Guardian. So alongside our negotiations with them to buy the equity, driven by Mark Zubko, who's going to talk to you later, we'd been in negotiations with a specialist mezzanine fund to help finance the transaction. And it was that negotiation with this mezzanine fund that led to the opportunity for AGA, who participated in the end alongside that mezzanine fund.

The mezzanine fund did their own diligence. They negotiated their own debt documents with us. And they've been doing that extensively with us over an 18-month period; the same period of time we've been talking to Guardian about buying the business. And Guardian I guess were focused on certainty of transaction, but then so were we, given our view that the equity was being acquired at an attractive or even a very attractive valuation. So the Fund was willing to pay an attractive debt coupon because the second lien bond, the terms we'd negotiated with the mezzanine fund allowed the Fund to first of all institute higher total net leverage versus what was then being offered in the marketplace, so allowed the Fund to maximise equity returns; and it also gave us certainty, which was important to Guardian and was important to the Fund.

AGA's investment rationale, as you can see on this slide, for the second lien bond was that the company itself, known so well to us from 6 years of ownership in the Fund, was a very strong credit. So it was this extremely strong market leader in a winner takes all market or winner takes most market, but pretty much a winner takes all market. It benefited from very significant scale and network effects. Auto Trader, like other of these marketplace businesses, is really a two-sided network and once you have that up and running it's very, very hard to disrupt it.

There was a good track record of growth within the Auto Trader digital business. It was very cash generative, with virtually no capex requirements that will allow the fund to pursue the dividend recap in 2011. There was also significant equity cushion, despite the high face value leverage. So it looked like a good debt investment as well. Indeed the expected returns of 11% yield to maturity seemed very, very attractive on a risk weighted basis, given what we thought was the low risk of the credit. And it seemed a very secure way of earning at least 11%.

I say at least because an additional attraction of this investment for AGA was that there was breakout potential for the investment provided by the call protection of the bond, should there be a near-term change of control that there should be a near-term exit by the Fund. And if the Fund sold the business early there was going to be significant incremental payments that would accrue to the debt investors.

And, indeed, that is what happened. The interest coupon was easily serviced during the investment period. The Fund did indeed seek an early exit, and as I said, the Fund IPO'd Auto Trader in March 2015 and the investment in the second lien bond was fully realised, including the break fees, and it generated in sterling 1.2x at 20%, a 1.3x at 33% euro return, so really equity-like returns in what was a debt investment.

So it was a good deal then for the Equity and it was also a good deal for the second lien bond holders, and to my mind, a very good example of how the Fund and Derived Investments can benefit from being in different tranches of a single business's capital structure.

So that's the end of the Consumer presentation and I'm going to hand over to Giancarlo who's going to talk about Services. Thank you.

Giancarlo Aliberti, Partner – Services Head of Operation

Good morning to all. I'm Giancarlo Aliberti. I've been with Apax for 16 years, and before that, 12 years as a Management Consultant at Monitor Company. And I'm in the Services group, one of the Partners there, heading the Services group in Europe.

In Services, we have 19 investment professionals at the moment, and 6 Partners with 12 years of experience for the 6 Partners at Apax, across all our offices at Apax.

Let me stop and try and give you a view of how we think about Services, because if Telecom is complicated in terms of number of segments, Services is even more. And when we say Services, we have, first of all, Financial Services and Business Services, and then when you talk of Business Services, you have recruiting companies, right up to logistic companies, to testing and inspection and the rest.

So, many years ago, we stopped and said, "How do we rationalise it, because we can't go after 25 different segments within Services?" So what we did is we went through and we decided, and don't focus now on the matrix still, but we decided that we had four drivers of how to classify then each of the sectors, on the subsectors, to determine if there was an attractive sector in which to invest or not.

And the four were:

First, on the economies of scale, so when you're a recruiting company, you don't have economies of scale, and if you want to do more business, you hire more people and you have more costs, so you have a fixed cost base on which you can work on.

The second is, do you have barriers to entry? Economies of scale help in barriers to entry, but also value-added services, stickiness of customers, and all that, make it more attractive as a subsector.

Third is the growth, and what we quickly realised is that growth beyond GDP growth and the normal growth was driven by outsourcing by large corporates, and corporates in general, of services that in the past had been doing internally, and slowly they were outsourcing out to service companies. So take chemical distribution, for example, it's one of those in which the chemical producers, for the last 10 years and for the next 10 years, will outsource distribution and sales force for small clients to specialised players in the industry, and therefore creating more growth beyond what is the growth of chemicals generally in the marketplace.

The fourth was, can we invest in a subsector where there's consolidation opportunity? And if you think of it, Services often started by mom and pop shops, people who go in and start a business, and then they realise that, "Wait a second, there are all the rest," like the economies of scale, the stickiness, one or two or three larger players forming the industry in that subsector. But then there's a tail of a lot of small guys out there and the leaders can go out and buy them, and that creates value because you're typically buying them at a much lower multiple.

So we put all those four together and we looked at all the subsectors and we spent a lot of time thinking through them, and we came up with a bunch of areas where we decided that we're going to invest. And more than stop on this one, I'll jump on the next two slides, where you find on one side, on the Business Services, where we focus, and then on Financial Services.

And on Business Services, the two main areas in the last years have been what we call Route-Based Services and Logistics and Distribution. And the Route-based, just to give you a very simple idea of why, and I come back to those economies of scale and all the rest, and if you have a Route-Based company which is large enough, and if they are giving a service along Jermyn Street, if you have a client on Jermyn Street, or 5 clients on Jermyn Street, it makes a huge difference. Okay, you have the same van coming and getting up, going up, delivering something, and if you have one and then it needs to go in East London, a very different proposition than if you have 5 clients on the same. So when you have leaders with a Route-Based Service, it's very attractive and they become very good companies to invest in.

So we've invested in a number of companies there. We go into one of them, Rhiag, and spent some time there. It's an auto-parts distributor, but we've invested in from cash management to chemicals distribution and other logistics.

There are others which we like, like Testing and Industrial Services, but in the last years they've been really expensive. They've been trading at very high multiples, M&A has been done with high multiples, so we have done with the past, then we took a break, and saying, "Wait a second, it's out of whack now where they are in terms of valuation." Now they've come down a bit, and they've come down because a lot of these guys were exposed to energy, and of course that has stopped valuations, and valuations come down. And it has psychologically also affected the whole sector, so we're out again hunting for potential deals, for example, in Testing.

In Financial Services, we've typically stayed away from balance sheet heavy businesses. They're really difficult to analyse, and at this moment they could be opportunities given where we are in the cycle, but you need to be really careful on that side.

So what we've done is that we've really put the efforts on areas like Speciality Finance, where we've done a lot in developed markets, but especially in developing markets where growth rates and Speciality Finance are very high, with the government even encouraging it, because the large banks cannot access a lot of the clients in rural areas or in areas where there's less income. And therefore even the government has pushed these guys to grow, lessening the regulation. And you find some really good assets in that area, and in particular in India we've invested a lot.

Financial Products Distribution, any time you have a company which its main focus is distribution, and therefore the client ownership, it becomes really attractive. So in the US, we've invested in Insurance Brokerage, which are really nice businesses. Where the consolidation play also is really important. To give you an idea, HUB, which we invested in and divested, at a certain point, when actually for most of the years we owned them, was doing one acquisition per week. They are small, local brokerage firms in small, little cities in the US, and they set up a machine to go out and contact them, get them interested in selling, and had hundreds of them in the pipeline, and some of them came through. And then we invested in Assured Partners, which is very similar to HUB, which is going through again the same strategy. Asset Management has been a good area. Difficult to find deals, they don't come every day, but interesting, and then Digital in the US.

What have been the results? Pretty good, 2.8x money and 24% IRR on the Private Equity side, and 1.4x and 73% on Realised Investments on the Derived Investment side, so a good area to invest in. And it's an area where, as you can imagine, there's a lot of cash flow, and that's produced companies that are very stable. But the risk that you have here is that you fall in the trap of doing investments at 1.6x, 1.8x, 15%, and you really need to go out and hunt for those opportunities where you can get these type of returns, which is what the 19 investment professionals are doing on a daily basis.

What's the allocation in AGA for Services? 18% in Private Equity and around 14% on the Derived side. It's been a pretty good sector to invest in in the last three or four years. For the reasons which I talked of before, very stable for the businesses and, frankly, we have a great team going out and finding those type of investments.

Okay, let me go to a couple of examples. One is Rhiag and the other one is Berlin Packaging on the debt side. On Rhiag, I'm going to spend just two or three minutes on the slides, and then we have a video which we have prepared, which I'd love you to go through it, because they interview the CEO, you see the company, and it's interesting to get the real feeling of the company. But before we go into the videos, we have the background. Let me just give you the highlights.

So, first of all, what does Rhiag do? It distributes, and it looks very boring but it was a great investment. It distributes spare parts, auto spare parts, to independent garages in Italy and Eastern Europe, actually also in Switzerland. And think of it this way. It has to deal with about 100,000 SKUs a year, 100,000 different products, and it distributes those to 50,000 garages and it has to keep a service level of getting that part into the garage within two or three hours from the order.

So the garage calls and says, "I need such and such a part," and the industry needs to deliver it within two or three hours. Why is that? Because the garage gets a car in the morning and doesn't want to keep it at night. These small garages don't have the space to keep the car there for a couple of days, so it needs a supplier which will bring the part in, he'll change it, he'll repair the car, and the client comes in the evening and picks it up. And that's with 95% of the products. Now 5% are slow movers, very rare parts, etc, and that might take two or three days. So it's a pretty sophisticated logistical system you need to put in place, which once you do is a very nice area to enter in.

We bought this company in 2013, based in Italy. Italy was not the flavour of the month in 2013, but we had identified this sector for many years as attractive and we saw the opportunity, we went there, and on an exclusive basis, we closed the deal.

What was the thesis? We'll go through it in the video, but a very clear market leader, five times larger in Italy and the second competitor, four times the Czech Republic and leadership position in other Eastern European countries. We saw good growth in a very stable market. It supplies the car park in a country. The car park doesn't move from year to year, very different than new car sales. It's a very stable market, but still growing very nicely, for a number of reasons I won't go in, it might be in the video. And we bought it at a really attractive price of 7x versus peers at 11x.

And that's for two reasons: one, because of Italy, and second, because in Europe this sector wasn't visible really to buyers. There was only one American company had come in. Other Private Equity, really the large guys had not seen it as a priority, and thanks to the sector expertise and going in and being specific, we saw the opportunity and when we saw that opportunity and we said, "Wow, let's jump in."

In fact, we did very well out of it. We bought another couple of companies, smaller distributors, we grew it organically, we put it on the map. We tried to buy another large company, which didn't happen; and within two years we sold it to that American company that had started coming in, LKQ, into the UK and Holland, at 10x, making 3.2x money and about 71% IRR in a couple of years. So a great deal and the thesis came out really nicely.

But let's go through the video and then I'll talk to you about Berlin Packaging on the other slide. I hope this works.

[Playing video]

So that was Rhiag, good investment, and all the best to them now, they're by far now the number one in Europe, twice as large as the second competitor across Europe, a couple of billion in sales.

Another investment on the Derived side is Berlin Packaging, and it follows the guidelines we've been talking about, i.e., we think through our Private Equity investments, we focus, we understand where the sectors and subsectors we want to invest in, and we spot opportunities. In this case an opportunity which is not tied to a Private Equity investment but that came out of the process. Berlin Packaging, first of all what they do is that they distribute, again distribution, the same area, but plastic containers from bottles to pharma containers to food containers, working with around 750 suppliers and distributing 2,500 customers. So that's what they do. They have 90 warehouses in the US, a US company, and do about 150,000 shipments per year to those customers with a very good service level.

So we looked at it, we liked the company, it was for sale. We went in and did a whole process to try and see if we could acquire the company, and we ended up not acquiring it and Oak Hill Capital Partners acquired it at a higher price than what we were willing to pay on the Private Equity side. However, due diligence had shown that this is a great company and so we decided from an AGA perspective to look at it from the debt side and invest in the second lien, and we ended up buying €8m of second lien in the company.

Why did we see it as attractive, and why once Oak Hill Capital Partners acquired it we went in? A lot of the stuff that we've seen on Rhiag and seen in the services, first of all it was a great position as I said before, a large number of suppliers, huge amount of customers, largest customer 2.5% of sales, a great position when you're having such a fragmented supply chain. Like all the parts very resilient business, very stable in time and you have that resiliency that will kind of protect you, especially on the debt side if you think of it, even better than an equity position. Having said that, it's still growing, and growing very nicely at 4-6% per year. Packaging is growing at a nice pace, and the company's outperforming the market because it's well positioned, it's one of the two leaders, it has a great sales force. It actually adds value.

To give you an idea, for the small customers some of them are too small to go back to the suppliers and tell them, "Look, I'd like a container with a special design", so Berlin Packaging goes in the middle and says, "Wait a second, I'll deal with your design. I'll help you in designing it, and then I'll help you get the lot you need for your shipment". So it's not just I take a product and just send it out, I'm actually doing a value added, which comes back to stickiness of customers in these type of companies.

So we saw the opportunity, we jumped in. We thought there was a great risk return profile. There was and potentially there is a scenario where there's an early take out of the debt. We actually thought that that might have happened earlier because there was an opportunity of buying a second competitor, which okay we ended up not buying, they would have refinanced the whole thing and would have had an extra kick to it. But that could happen still and so there is that opportunity. But beyond the opportunity the company is doing very well, is growing very nicely. It's growing more than what our Apax internal business plan was, so positive from that point-of-view. It has very strong cash flow generation, on every $100 of EBITDA, $88 comes out in cash. It's very asset light. It outsources a lot of the kind of asset heavy activities to outsiders. So again, think of it from a debt point-of-view it's great, there's a lot of cash being produced and that can service the debt and help out. So we still have it, it's unrealised, very happy with it, and we continue keeping it until there's an opportunity of course.

I shall stop there on Services, I hope I gave you a good idea, and hand it over to Seth who will talk about the Operational Excellence Practice.

Seth Brody, Partner, Head of Operational Excellence, Apax Partners LLP

Thanks, Giancarlo. Good afternoon. My name is Seth Brody, I'm a Partner in our New York office and lead our Operational Excellence Practice globally. I've been with the firm for a little over 8 years, and before I arrived here I was an operator in digital media and e-commerce businesses. I'll spend the next 15 minutes or so walking you through our strategy and our approach to operational engagement and value creation here at Apax, and give you a view into the breadth of our capabilities, how the team gets engaged, some of which you've thankfully heard from my colleagues already today.

It begins with the mission that we have in the Operational Excellence Practice. At its core our objective is to gather a collection of individuals who possess rich experiences primarily from working in industry to come to Apax and build our products and services that serve our two key constituencies. Primarily we're focused on helping Deal Teams do better operational diligence and identifying opportunities on the way into these deals that we can underwrite. We're also focused on helping our management teams and executives in the companies that we've invested in drive growth. Ultimately what guides us is this idea of sustainable equity value. Whatever step-change in performance we're able to generate has to be sustainable, we have to put in place the capabilities, the teams, systems and processes so that the companies can continue to execute at that higher level of performance all the way through to exit.

There are four pillars to the strategy that we use to execute on this. It starts with a distinct demand driven approach, add in a very unique team of talented executives, who you'll meet in just a moment. We then leverage the scale of the portfolio in terms of our knowledge, in terms of experience, in terms of spend across the platform; and then we have added a set of tools that we've developed specifically for our mission; and then ultimately this strategy allows us to drive sustainable equity value through the portfolio and as well as adapt to a constantly changing marketplace and composition of our portfolio.

So digging a little bit deeper into each of these four pillars, our distinct approach to value creation starts with a functional focus in the seven vertical practice areas that you see on this slide. These areas have been developed over time based on the demand that we've seen for services from our portfolio company executives and investment professionals, and we're always a little bit behind the demand curve, we want to make sure that as we add a capability to the platform that we're certain that it will be drawn quickly into the portfolio and utilised by deal teams.

Our team has built to include 14 professionals deployed around the world. These are primarily seasoned operators who possess very practical expertise and from their backgrounds working at some of the world's most respected organisations, as you can see on this slide. One of the most important features of our platform is that our hands-on approach, which we'll talk about with a few case studies at the end of this presentation, keeps these executives in the field and working on the ground from assignment to assignment so that their experience stays fresh as we continue to work with the latest tools, the newest technologies, and work closely with the talented executives that are deployed across our portfolio.

We leverage the scale of our portfolio in many ways, and there are effective approaches that we share with many other Private Equity firms like leveraging purchasing scale to drive costs out of the portfolio. Our Portfolio Efficiency Practice has optimised nearly $1.5bn of spend at this point, generating over $200m of savings in just the past few years. But we also leverage the scale of the portfolio in more creative ways. We bring together our portfolio executives once a year in a conference we call KnowledgeNow. This past year we had 125 executives from 27 of our portfolio companies join us for two days of best practice sharing. When we bring these companies together another exciting by-product is that they're frequently able to do business with each other, so they've developed commercial relationships. Companies like iGate, GlobalLogic, Aptos, Garda and others have derived over $170m of cross-portfolio contracts as a result of spending time together through our KnowledgeNow programmes and through the proactive efforts of our team in facilitating these relationships.

The last pillar of our strategy seeks to invest in the creation of our own proprietary tools and software and we're going to empower this talented team that we've put together and supercharged their effectiveness. For example, our Apax Digital Insights platform was built from the ground up. It aggregates real-time performance data from all of our portfolio companies. We collect over 60 attributes about each of the 300 million unique visitors to Apax's digital properties each month. And then we use this data to do more comprehensive diligence on potential investments. We can benchmark performance, we can predict where new opportunities might lie to unlock the opportunities that we see on a digital front.

Similarly we've built an online platform at Connect@Apax, which allows us to do what we do at KnowledgeNow throughout the year. We have over 200 executives who have registered as experts in particular areas so that other Apax portfolio company executives can find them and tap their knowledge base. And these tools they form the foundation for a sustainable competitive advantage, and it helps to differentiate us in processes like Idealista, like Wehkamp and some of the deals that you've heard about today.

A by-product of the greater scale and the work that we're doing across the portfolio is our more frequent involvement upstream in the deal process. And over the past few years we've been partnering ever more closely with deal teams to evaluate new investment opportunities. And we focus our efforts on evaluating the operating capabilities of the target companies with a particular view to identifying the specific levers of transformation that we can turn to drive value creation early in the investment timeline. Now, this gives us the confidence to underwrite those levers in very specific terms, the operational diligence that we do, and then we partner very closely with management to execute these plans early in our investment.

Two examples that will bring this to life. At Cole Haan, which is a Consumer deal we did a few years ago, we identified the potential for the digital business to flourish with the right combination of investment and a new talent, after we were able to carve it out from Nike. We signed up to deliver these results in the plan, and actually signed up to partner on the ground with management for the first 9 months of that investment to execute a carve-out in the most critical areas that would enable this future growth, including standing up a new IT infrastructure; building a new e-commerce platform; standing up the independence of the company by negotiating 180 or so separate contracts so that the company could have its own arms-length agreements with vendors.

And since this transition has completed Cole Haan's digital business has more than doubled in size in the first couple of years as we put in place the right foundation, and most importantly put in place the right executive team to lead and build on that foundation that we were able to put in place early on.

At Trader Canada we saw the potential of the brand and its competitive positioning on the way into this deal. There were a lot of positive attributes that we could see when speaking to consumers during due diligence. And so we knew that if we invested behind this brand we'd be able to accelerate usage and particularly accelerate the transition of this business from print to digital in much the same way that we had done at Auto Trader in the UK. Again, we signed up to deliver this transformation, got on the ground and led the development of an offline marketing programme, as well as a series of online investments. And we've been able to really dramatically improve the penetration of this business from print to digital, and traffic has grown in excess of 20% from the moment that we began investing in this marketing programme.

So for the balance of our day to day I'm going to provide visibility into some of our current portfolio engagements as a basis for clarifying the way that we bring these capabilities to match the opportunities that we see. As we put these slides together I reflected with my team, and really there are four themes that emerge in terms of the work that we're doing today.

First of all we do a lot of integration work, which is about things like complex carve-outs or M&A support. Second, we do a lot of innovation work, which is more about establishing new growth levers in the businesses that we're investing in. We do improvement work, which is about driving focus and change where there are opportunities to improve performance. And lastly our investment work aims to think around the corners and align where we're investing dollars and time today to where we want to be at the point where we're exiting.

So in the category of establishing independence and integration work, the partnership that we had with Steven and the Healthcare team on the recent deal we announced for Becton Dickinson's Respiratory Solutions Business is a great example of this kind of a project. So, the OEP partnered closely with the deal team and led a cross-functional team that worked literally around the clock for weeks on end to answer the most fundamental questions about this carve-out. And in this particular case it wasn't just about whether or not the carve-out was possible, we focused much more on the nuts and bolts of exactly how we would carve this business out, how much it was going to cost and how long it was going to take. And that information really formed the foundation for a set of really comprehensive transition services agreements, and the right relationship with our partner in this deal, Becton Dickinson, on a go-forward basis.

This kind of diligence and the skillset within the team really provides us the confidence that's necessary to underwrite some of these more complex transactions, similar to Becton Dickinson, the deal that we've announced with Accenture in the carve-out of their insurance software business is an equally complex carve-out where we were able to leverage this expertise.

In the category of driving innovation, the work that we're doing at Ideal Protein is a great example of how we're leveraging the digital and operating expertise that we have to drive innovation through experimentation. So, today Ideal Protein their dieters access their products through a network of clinics, doctors' offices; and that's the primary source of distribution and is also going to be the primary lever of growth in this investment. But during due diligence in our conversations with management we were able to identify another opportunity here, which is to move further up the funnel to start to speak to dieters where they're beginning their research on Google, where over 150 million of them search for weight loss and diet related terms every month. So, we worked very closely with management to put together a quick test that leveraging the skillset we have on the team with our digital marketing expertise and our background in developing lead gen programmes across our portfolio, we were able to take this concept from the whiteboard to reality in three months. And we have some very promising early results.

And whether or not this ultimately becomes a new channel to drive additional demand, I think it's a great example of how we partner with management teams to very quickly develop new levers of growth, and we can leverage a lot of repeatable processes and experience within the team to accomplish those goals.

Where opportunities for improvements exist, we work closely with our deal partners and management teams to develop road maps for focused change. The largest of these programmes that's currently underway is at One Call Care Management, which is a Healthcare investment we have in North America. We're about 15 months into a two-year programme that targets efficiency improvements in almost every portion of One Call's operations. We're partnered very closely with management on this. And we have OEP team members on the ground, from the get-go, developing the key plans, looking at every area of the company's operations and then ultimately putting the company in a position to execute at this higher level of performance all the way through to exit. There will be very substantial efficiency improvements that are well on their way to being delivered. And we're looking at all of the company's systems and processes, and focused on how we can improve those and further integrate the business and invest.

And that last point is a really important one, which is to say that even when we're looking at efficiencies or looking at costs, we always have an eye towards the future, to make sure that these are sustainable and making sure that we're not just focused on near-term improvements, but putting the company in a position that they can operate more effectively all the way through to exit.

And sometimes the focus on the end game constitutes an entire body of work in and of itself, which is the case at FullBeauty Brands, which is a direct-to-consumer catalogue retailer and internet retailer in the US. Core to the investment thesis at FullBeauty was the potential that we saw to transition the company to its next level of performance through more aggressive investment in systems and processes and people to allow it to capture more digital-savvy customers and to drive this transformation.

As part of our 180-day plan we're engaged with the company in aligning on a vision for where we want to be in 2019, and building a project-by-project, person-by-person plan for how best to get there. And it's really focused on how we're most effectively going to invest the new capital that we want to put into this business to drive what we're calling our FullBeauty 2019 vision.

So, I thank you all for your attention today. I'll be around through lunch to answer any additional questions. And with that I will pass it to my colleague, Mark Zubko.

Mark Zubko, Partner, Head of Capital Markets

Hello. Nice to see everyone today. My name is Mark Zubko, and I'm a Partner based in the New York office. Prior to moving to New York I was also in London for ten years, so I remember fondly the wonderful weather here.

In terms of themes I'd like to talk about today, there are four: the first is I want to talk about recently syndicated debt market volatility, following an unprecedented run of debt market froth from 2011 to 2015.

The second theme I want to talk about, which both Nico and Ralf have already mentioned, is the divergent attractiveness of the US debt market versus the European debt market, and the relative attractiveness of the US market currently.

The third theme I want to spend some time is really looking at the fundamentals of the debt market. So despite the increase in yields, are the fundamental underpinnings of the debt market still robust?

And finally I'd like to spend some time on the compelling opportunity for AGA that we currently see, particularly on the derived debt investing side.

So as you can see on this next page, debt market yields have risen quite a bit in the last 18 months. And that's true both of senior debt and of junior debt. The cost of a senior secured bond – again this is in the US – has almost doubled. And more relevant for AGA the cost of junior debt, the interest income available, has almost tripled. Now, just to be clear this is following a period of unprecedented froth. The guidance we used to give to our LPs in the Private Equity side is we've never seen, in the history in modern finance, a lower interest rate environment than we've ever seen from this 2012 to 2015 period so we're starting from a low base. But what you can see quite clearly is the cost of debt today is materially higher than we've seen any time since the credit crunch.

In our opinion there are really three primary drivers of this increase in yields. The first is this uncertainty around timing and magnitude of US interest rate rises. The second, which is something we've spent some time on with our Chinese office, is the potential macro slowdown from the Chinese deterioration. And the third most relevant for US debt markets is the market contagion that we've observed for the energy market and commodity market, where that market has suffered from severe deterioration.

So, just spending a few more minutes on the energy market. You see here the cost of debt for senior secure bonds in the energy sector – we've turned to page 112 – and what you see here is the cost of debt for a senior secured bond has almost quadrupled from mid-2014 to September, October of last year as the energy prices really deteriorated. And that's not technically that relevant for Apax because we don't really invest in energy. We have a couple of businesses that have minor exposure to the energy sector, but very little. But the reason that it matters is the deterioration in the energy market in the US has had a massive impact on the cost of debt throughout the market, and has led to a vicious circle, which has driven up yields materially.

And broadly what's happened is many debt funds in the US, both retail loan and bond funds have experienced severe mark-to-markets on their positions, and what that has led to is a forced selling dynamic where these funds need to sell debt instruments to fund redemptions. And they can't sell the energy investments. And the reason they can't sell them is because there haven't been any buyers. So the result of that is they've sold all their other investment opportunities, specifically the sectors we focus on: Technology, Retail, Services.

Another dynamic that both Nico and Ralf have talked about, and I think actually Nico had this slide in his presentation, is this divergent trend between the cost of debt in the US versus the cost of debt in Europe. And it's an interesting dynamic. If you look over the last 20 years of Private Equity business we always had the live offices that we should bring investment opportunities and finance them in the US market. It was historically the lowest cost to the most liquid market available. And what we've seen in the last year and a half is actually that's flipped. And for a first time in a long time interest rates on US debt instruments are materially higher than the interest rates available on the European market.

Now, that raised the question for us: So we've got this material increase in yields, both in the US and Europe, obviously the US much more so than Europe, is there something fundamental that we're missing? Is there an expectation of very high defaults over the intermediate term? And so we spent time looking at the two key underpinnings of the debt markets; on the left hand side you see default rates and on the right hand side you see treasury rates, the base rate, the risk free rate. And as you can see on the left hand side despite the fact that there's an expected increase in defaults, if you strip energy out of that and look only at all the sectors excluding energy the default rate remains incredibly low, so the historical average default rate is over 2% and our expectations based on all the work we've done is the expected default for all of our sectors we focus on is materially lower than that.

The other fundamental underpinning is the risk free rate, and this is true not just in the US but in the Eurozone and in the UK. You still have ten year treasury rates or forward spar rates, however you want to look at it, at or close to zero which is pretty close to the lowest they've been in the history of modern finance still.

So if you combine those two factors with the fact that yields are remarkably elevated and I think our view is we really do think there's a compelling investment opportunity. You can see another way of looking at it on this next page, so these are Apax's core sectors and there are a couple of pieces of data in here. The first is default rate, both current and expected for our various sectors, which as you can see is materially below the long term average. And the second is the yield movement that's occurred since January 2014. So the way we read this information is expectations of defaults are low and we can buy materially higher yielding instruments today than we could have a couple of years ago. It's not only true there are kind of macro factors too, if you look in our overall portfolio, and Ralf touched on it earlier, our portfolio companies on the derived debt side are performing, generally speaking and there are a couple of exceptions, but generally speaking very strongly.

Now beyond the overall market dynamic the question then becomes how do we build our pipeline? And there are really two sources of pipeline in particular that we've seen currently. The first, and this is in the US, is private placements. So if you look at the left side of the graph you see the nature of the types of financings that we did in the 2012 and 2014 period; and generally speaking we syndicated everything, we went to long bond funds and we distributed the debt to 30, 40, even 50 investors. If you fast forward to 2015 that's fundamentally changed. Banks are much less willing to underwrite debt and in many cases they are not willing to provide the same levels of leverage that a private lender would provide. And the result of that is recently we've been doing far more private placements on the Private Equity side which is providing investment opportunities for AGA. In all three of these cases these debt investments are investments that AGA participated in.

In addition, we've seen a lot of discussion over the years about European bank assets and their desire to de-lever. And what you see is a couple of things on this next page. The first is they haven't really de-levered much at all, right? Generally speaking bank assets divided by GDP are pretty much flat since the credit crunch which is pretty shocking. And the other dynamic which is much more often discussed is the divergence between European and US banks. Generally speaking European banks have far more assets on their balance sheets than US banks.

Now the way in which this provides opportunity for AGA is really twofold. The first is we can negotiate directly with our relationship banks to buy assets directly from those bank balance sheets. Now unfortunately thus far that's been relatively hard because Banks have not wanted to realise losses on the basis of mark-to-markets. But the more relevant flow of opportunity is on hung syndications, so this is before the debt even gets onto the bank balance sheet and is a result of, in many cases, banks underwriting too aggressively and finding themselves trying to syndicate deals at below fair value. And in that particular case we found quite a few opportunities to buy opportunity from banks during stress syndication processes.

So in summary a couple of key takeaways, the first is the debt investing environment is the most attractive we've seen since the credit crunch, the second is that market fundamentals remain strong, the third is we have a number of pipeline opportunities around private placements and bank disposals; and then finally we've been quite active during this period of market dislocation, about a third of our overall portfolio has been invested in the last six months.

So with that I think I will hand it over to Ralf and Nico and Tim for any questions.

Tim Breedon

Well thank you very much, it's been a very long morning and I appreciate that, but we have a few minutes available for questions and Nico, Ralf and I would be delighted to take them. Comments also, not just questions are welcome.

Q&A Session

<u>Question 1</u>

Hello. Just a question on One Call Care; obviously we heard from Seth about the plan for company improvements and we saw it was on your list of amber rather than green, I just wondered whether that was a function of the fact that you're still in that programme or whether the programme isn't working as well as you had hoped thus far?

Nico Hansen

I can answer this or tackle this since I'm on the Board of the company. The investment had a slow start due to regulatory reasons and because we picked I think the wrong CEO at the beginning. And we have a new CEO on board since six months now and we are in the middle effectively of a programme to improve operations of the company. The company's profit has actually gone up since we acquired it but we are significantly behind our original investment thesis, investment plan, and so we are now working on kind of catching up on that. Now that doesn't mean that the company is doing badly because profit is up relative to when we bought it, but it means that we are behind expectations and we are in the middle of a change programme.

<u>Question 2</u>

Hi there. Yes, it's very interesting to see how you look at both or various bits in the capital structure. I wonder whether you could sort of talk a little bit about how you manage the conflicts there; and also how you think about the rates of return versus the gearing and what marginal rate of return you expect on the equity versus the debt piece?

Ralf Gruss

Yes, I mean on the conflict side let me address this first, I mean we have some very rigorous processes in place to avoid us getting into areas where we would have a conflict. Essentially any conflict that we would see or any potential conflict that we would see, ultimately the process would end up us having to raise that with the independent board of AGA, and all of the directors are independent who would then take a view. However we also have some very clear guidelines in place which we adhere to when we make, for instance, a debt investment in one of our portfolio companies. One of the rules we for instance have is that if a portfolio company were to go into trouble the debts that AGA had invested in would go non-voting or would vote pro rata so essentially neutralise it so that we don't have that conflict of debt versus equity. And there are also very specific rules in place on how we deal in primary syndication of the debt or when we buy debt in the secondary market. It's a topic which we're all very well aware of and, as I've said, we've put processes and systems in place to appropriately manage that.

Nico Hansen

Should I tackle the risk involved? Look, I mean the target returns we have specified as 20% to 25% for listed equities and 10% to 12% for debt on the Derived side. And on the Private Equity side I think as Apax have kept our kind of classic Private Equity type of return target of 20% plus. I assume your question goes to the Derived Investment and how we kind of calibrate that. And look, on the listed equity side obviously this kind of return looks reasonably aggressive from the outside; but you have to keep in mind that all the investment thesis that we are creating for those investments that come from the Private Equity business, they come from particular insights which I don't think anybody could gain into markets, competitive environments, specific value dislocation situations. And so in our minds these investments are more akin to kind of private equity type of investments, at least based on Private Equity type of insights. And so these return targets feel appropriate. You know, historically we've obviously done better than that.

On the debt side I think that the question is very targeted because we obviously have created returns on the debt side which are very much akin to the Listed Equity returns as opposed to the 10% to 12% that we have put up as a formal target. And I think historically we have seen or derived, if you wish, debt investment situations which again were very much akin to more classic private equity situations where we spotted a dislocation or where we saw some sort of improvement potential or trend that would drive the return eventually of our debt investments to similar levels as the equity investments. I would not want to kind of project that boldly into the future because I think we had a streak of success or luck or whatever you want to call it that's not easily repeatable, also because obviously with the exception of the past six months the debt markets actually have been very strong and have kind of supported those kinds of returns. So I think it's more realistic to kind of look at the 10% to 12% in the long run.

Now in terms of the risk reward profiles we look at the different layers of the capital structure and we try to figure out which levels or layers are the most attractive ones given the dynamics of the investments. So, for example, if we have a stable company with very little volatility generally I think that lends itself more to a debt investment maybe than to an equity investment unless you lever up the equity investment. So it's a multitude of factors like growth, like stability, volatility, like where it's in the capital structure, how geared it is, that influences those considerations. At the end of the day it's a one by one obviously industry of the investment target also so it's a one by one investment judgement, and we don't invest in kind of index like or kind of broad consideration situations, we invest in idiosyncratic situations where we have sort of an insight derived from the Private Equity side and so they're very unique in most of their respects.

<u>Question 3</u>

Thanks. On the Private Equity portfolio the revenue growth has gone down from around 7.8 to 6.4 was it over the course of the quarter. I wonder if you could expand on that. And separately just how likely we'll be to see continued secondary deals on I think it was VII and VI you've taken stakes on?

Nico Hansen

Yes, very good questions. Well it's interesting, your first question is putting the finger on the spot that we quite frankly hadn't really actually discovered until we put those stats together. I think it's a sign actually of the economy in particular in the US slowing to some extent. I don't think this is a particular Apax portfolio impact that we are seeing, I think it's a bit of a slowdown happening in the US; our portfolio is somewhat US geared and some of the companies have indirect exposure to the sectors which are doing not as good in the US any more as they used to, there's very little indirect exposure to energy but there's a little more indirect exposure to chemicals and to industrials which are the sectors in the US which are experiencing a slowdown. So I think it's stemming from that.

Ralf Gruss

I think on the secondary purchases of commitments in the funds, look we keep looking for those transactions, what has however transpired in recent months especially as the funds are performing extremely well, prices that people were quoting for potential secondary transactions were at a level where we didn't feel they're interesting for AGA to pick it up. So there wasn't a really good opportunity in the last 12 months for us to do it, but it's obviously something that we keep watching out for.

<u>Question 4</u>

Who takes responsibility for the investments, as in I've totally forgotten the word but it begins with a 'D', Derived Investments. Who takes responsibility for that? For example, if you're remunerated on a great idea, who's the one that gets paid?

Ralf Gruss

The overall responsibility for the Fund and the Derived Investments is with me. The way we work on the Derived Investments is that essentially we have a deal team like we have our Private Equity deals as well, which consists of members and partners from the sector teams who take responsibility in terms of working on the transaction, doing the due diligence and doing the analysis. At the end of the day who gets rewarded for it are those members of the deal teams who have done a successful deal and a successful exit.

Nico Hansen

All the investments run through our Global Investment Committee, which is five people for Apax Global Alpha who are eventually making together jointly the allocation decision.

<u>Question 5</u>

We've heard a lot about change today and delivering change. How dependent on the returns are a function of delivering successful change as opposed to the sort of organic underlying return?

Nico Hansen

We've actually done a calculation to that extent and about 75% of our returns in Private Equity are driven by operational improvements. I think a significant amount of that will be driven by change programmes as opposed to just the company being better after waiting for a while. I will say that the industry in private equity has changed to some extent for example since I joined Apax, in the days in the early 2000s you bought a company for 6 times EBITDA, you put 4.5 times leverage in, and miraculously after five years you were looking back at 25% IRR. And today, due to less market imperfections, maybe to some extent also more competition, that isn't so easy anymore, and really to get to classic Private Equity returns of let's say 25% IRR, you have to transform or at least change the companies. You have to do something better than the prior owner or the seller has done, and to qualify, to own a company with the credible expectation to make 25% IRR or so, you also have to do something better than our competition would be doing if they owned the company because otherwise we couldn't outbid them. I'm talking obviously now about a kind of competitive situation, not all of the situations are competitive but many are, and so we have to have change programmes otherwise we couldn't credibly strive for classic Private Equity IRRs.

Question 6

If you look at your deals as a whole, we had a lot of discussion about the complex deals that you're leading. How much of your portfolio is made up of complex transactions?

Nico Hansen

It's obviously a question of definition. But I would think that the style of investing is significantly different from what it was 10 years ago. I have to guess, but maybe 10 years ago, and what I mean by that in a qualitative way is that we are looking out for more quirky situations which allow more change, more transformation, stuff that not everybody can touch, only people can touch who have operational experience, who have things like the Operational Excellence Practice that Seth is leading; and so I think in that regard the composition of investments is different. It's tough for me to kind of quantify that, but I would assume that maybe 10 years ago 20% were quirky and today probably 50% or more are quirky, and so it is a massive change.

My expectation would be that it's very difficult in our industry to generate these kinds of returns if you hadn't gone for that kind of change. You see some of our competitors going the other way, they say we're continuing to buy a kind of company who run by themselves so to speak, but if you're putting them into funds which are generating only 12-15% IRR where the target IRR is 12-15%, infrastructure like investments, we have deliberately decided against that because we want to deliver classic Private Equity returns to our investors, and unfortunately for us that's becoming very laborious.

Question 7

Could you give us an idea of the sort of total size of the fund that you think you might be trying to get towards? Is there a sort of critical mass in terms of the fund size in two or three years' time?

Nico Hansen

You mean in terms of market capital or NAV? I think the math is such that if we deliver the 12-15% NAV growth, and let's say it's 13.5%, and we dividend out 5% per year, the incremental annual growth if I'm not mistaken is 8.5%, right?

Ralf Gruss

At 7? You would double in 10 years.

Nico Hansen

We would increase it by 30%, so we'd get to 1bn/2bn/3bn in terms of NAV or hopefully market cap by that point in time, because I think we don't deserve a discount.

Question 8

Another word that begins with a 'D', is dividends. Can you just tell me how committed you are to that 5% yield?

Tim Breedon

The yield is expressed as a percentage of the NAV not the share price. That's the first thing to talk about. So when we're paying 5% it's 5% of a higher number, which is the market cap. It was really important for us to get to the 2.5% first dividend payment at the end of the year. The condition that we had/we set ourselves was that we should be at least substantially fully invested at that time, and the team were able to invest pretty much the full proceeds of the IPO by that time, and so the constraint over meeting the target dividend payment was no longer there. And you could see really the mathematics that lead to the ability for the company to continue to pay that level of dividend going forward. The intention is in all normal circumstances to pay 2.5% of the NAV of the company in dividends per half year.

Question 9

How much of that will that be covered by income?

Tim Breedon

The question is how much is going to be covered by income. It's not necessary for it to be covered by income, but the aim of the Fund, the way the Fund is structured, is that it will be substantially covered by net income actually, income after costs of the company. But generally the flow of cash that go through the business are the dividend payments of the shares and the coupon payments of the bonds; but of course you've got the flow of the cash of all of the capital realisations in the Private Equity side as well, all those capital gains which are produced as well. So the way to look at it in my view is, what cash is coming through the balance sheet of the company, and is the target dividend yield sensible in the light of that? And I think if you do the arithmetic I think it is very sensible.

Question 10

Can you comment a little bit on the discount and how you are going to look to...?

Tim Breedon

Nico's commented on the discount that he doesn't like it, he says. He doesn't feel he deserves it.

Continued question

bring forward in terms of trading and how you're going to…

Tim Breedon

I'll look at this from the Board's perspective first if I may, which is it is a requirement of the Board and which we take very seriously to monitor the discount because there's information in the discount. The existence of the discount per se is not as interesting as the factors behind it, and it is very important for the independent Board to understand what that discount is telling us before they decide to take any action as a result of it. I think there are two main actions one can take: one is to try and identify those causes and do something about it; the second maybe is to consider buying back some shares.

Now in the prospectus there is a provision for the Board, a requirement for the Board, to consider buying back shares should the discount over a period average more than 10% of the initial discount at which the portfolio was acquired. The initial discount is 13% to NAV, 10% is 23% over a period. We're required to consider it at that level. At that point we all make a decision as to what we think caused the discount and what would be the best way of trying to remediate that.

But in my view, if you get a discount of that size that's not good in the first place. The best thing is to ensure that the conditions which lead to a discount of that kind are firstly understood and then dealt with. So there are two aspects here: is it AGA specific; or is it really a peer group issue? And I think what you're finding at the moment is it's largely a peer group issue. There are very few of our peer Funds that are not standing at a discount, and most are standing at a bigger discount now, and that discount has significantly increased over the period.

So the Board receives a report on the shares and the discount quarterly, it's a formal item on the Board agenda. We also receive a report on that verbally from the brokers to the Fund, so independently of the manager if you like, so that we feel that we have a full understanding of firstly the extent of the discount and any drivers of that. Does that answer your question? Good.

Nico Hansen

Can I tackle it from another side? I've been always puzzled by why this asset class, these kind of trusts are trading at the discounts they're trading at, and also in particular why Private Equity Trusts are trading at significantly larger discounts than maybe other asset classes. I think the three topics which come up in that context are lack of liquidity, i.e., when you need to sell you may have to sell into a market which drops so to speak, and so you can't really sell at the quoted price and that deserves a discount. An uncertainty about how real the valuations of the assets are, in particular in those assets which are less liquid where there is not a daily quote like, for example, Private Equity. And then thirdly, about concerns regarding the internal liquidity of the vehicle themselves, and potentially having to live with a cash drag, because they have to kind of keep cash and/or because such a vehicle may run into issues with their cash flows internally.

If I look at AGA in that context and tackle this one-by-one, I think liquidity today is not where it will be in two/three years from now because we will strive at increasing liquidity over time, but it's clearly an issue right now. Again, we are working on that. The second issue is one of the reality of valuation levels. On that side I can't talk about other vehicles in the industry, I know our valuation mechanisms, they are quite mechanical; and in my opinion they are fair, and historically they have been massively conservative because if you look at our Private Equity divestments relative to the prior fair market values then you see actually an average uplift between 20-30%. It depends a little bit on what sample you take, but it's very consistent and has been probably higher at Apax than at other Private Equity shops. So I know that our valuations are conservative, so I don't think we should deserve a discount because of that. But that's obviously a kind of insider's perspective on the thing, but backed up by the statistical facts of average kind of uplift on divestiture.

Then on the last part, I think we have, or I hope we have, addressed the issue of internal liquidly, the issue of a cash drag, by composing the vehicle in a way that actually enables us to run it on a fully invested basis and not suffer from a drag on returns due to having to keep a cash reserve. On top, by the way, we also have a significant revolving capital facility of €140m in the vehicle, so I don't believe that our vehicles should suffer from concerns about the internal liquidity or a cash drag on returns.

Of all these three areas I think, for me, only the first one is really an issue that may require a discount. But we work on that and we'll hopefully be able to eliminate that by the size of the vehicle, by more free float, by allowing people to trade this more liquidly.

Concluding comments: Tim Breedon

I think that's it. Thank you very much for attending, it's been a long and I hope interesting morning.