

## NB GLOBAL PRIVATE EQUITY ACCESS FUND

Initiation Note | Q4 2024

### Our View

This private equity fund leverages the scale and longevity of Neuberger Berman's private markets platform to access opportunities with high quality private equity managers in a cost-efficient manner. The firm has an excellent long-term track record both on an absolute basis and relative to its peers. The experience and stability of the investment team combined with robust processes gives confidence that the historic success can be repeated. The diversified approach makes this fund suitable as a core allocation to private equity for long-term investors.

### Summary

#### Overview

The NB Global Private Equity Access Fund is an open-ended, evergreen private equity fund. Neuberger Berman's (NB) strategy is to invest in privately held companies in the US and Europe that are beneficiaries of long-term growth or have resilient business models and a track record of strong cash generation. They invest alongside Private Equity managers with the intention of actively improving these businesses to create value.

#### The Manager

NB has been managing private equity strategies for over 35 years and currently manages \$125bn in the asset class. This longevity and scale, alongside their expertise to meaningfully contribute to the due diligence process and deal structuring, has established them as a preferred source of capital for private equity fund managers. This gives them access to high quality Private Equity managers at low cost. The fund is managed by a large, experienced team and it appears that the key people that generated the firm's track record are still in-place.

Asset Class	Private Equity
Manager	Neuberger Berman Alternatives Advisors LLC
Inception Date	28/12/2022
Domicile	Luxemburg
Dealing Frequency	Monthly Subscriptions and Redemptions
Fund Size	\$171.5m (31/10/2024)
Regions Marketed	Asia, Europe, LATAM, Canada and Australia
Fund Website	<a href="#">Link</a>
Management Fees	1.00% to 2.90% (share class dependent)
Performance Fees	12.5% with an 8% hurdle.
SFDR Classification	Article 6
Legal Structure	SICAV Part II

#### Report Author:

##### Solomon Nevins

Solomon has been researching alternative investment funds for 16 years. His experience was gained at institutional asset managers, CCLA and AXA Architas, where he was the private assets specialist.



## Operations

The fund's evergreen structure makes accessible to wide range of investors. It has a low minimum subscription requirement, regular dealing periods without commitment queues, and is available on UCITs platforms in a range of currencies. NB is experienced at managing evergreen funds, with \$14.1bn of AUM in these structures, and this is reflected in the sensible approaches to liquidity management and asset valuations. The co-investment approach eliminates underlying costs and the fees at the fund level are consistent with the wider peer group.

## Using the Fund in a Portfolio

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A long-term allocation to PE has historically enhanced returns when funded from equities, bonds, cash or lower-return alternative assets.

Compared to traditional closed-end PE funds, the open-ended structure provides access with improved liquidity, more flexibility, lower minimum investment requirements, and less operational complexity. Despite the flexible structure, the inherent illiquidity and riskiness of PE remain so investors should still view an allocation as a long-term investment decision.

The fund is a well-balanced strategy that brings direct exposure to US and European buyouts in sectors with low economic cyclicality. It is sufficiently diversified by company, sector and underlying manager that it could serve as a single allocation to PE within a wider portfolio.

## Asset Class View: Open-ended Private Equity

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PE as an investment strategy typically describes buying controlling stakes in private companies with a view of adding value through implementing business improvement initiatives before selling at a higher valuation. Over the past 20 years, the asset class has delivered excellent long-term returns.

**The fund's diversified approach makes it suitable as a core Private Equity allocation within a multi-asset portfolio.**

**PE has been one of the best performing asset classes during the past 20 years.**

Figure 1. Asset Class Returns

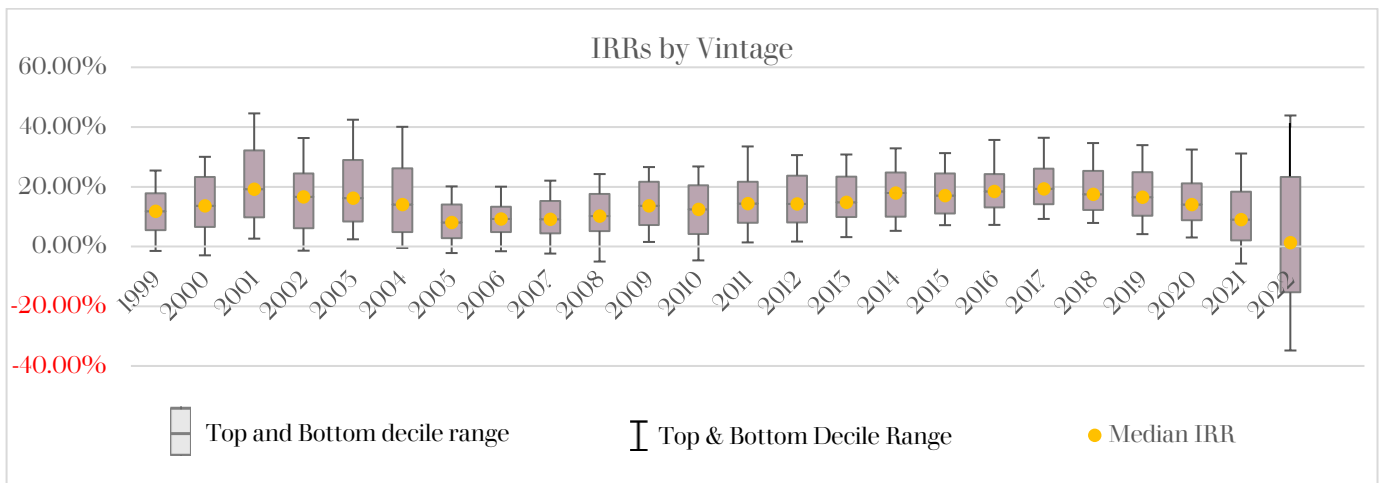
Strategy		1-year	3-year	5-year	10-year	20-year
Private	Private equity	10.55%	16.65%	17.66%	15.48%	14.16%
	Venture capital	-2.97%	7.35%	14.07%	13.00%	10.05%
	Real estate	-4.23%	9.36%	7.98%	9.42%	7.32%
	Real assets	8.54%	14.33%	8.51%	7.68%	7.99%
	Private debt	9.24%	10.49%	8.52%	8.44%	8.96%
Listed	S&P 500	26.29%	10.00%	15.69%	12.03%	9.69%
	Morningstar Global	22.13%	5.85%	11.91%	8.31%	8.31%
	MSCI World Small Cap Growth	17.72%	-1.11%	10.26%	7.61%	9.09%
	Morningstar Global Real Estate	9.99%	0.35%	3.67%	4.52%	6.62%
	Morningstar Real Assets	6.16%	5.77%	5.61%	3.27%	5.48%
	Morningstar Global High Yield	14.34%	1.01%	4.79%	3.84%	6.26%

Source: Pitchbook. Data as of 31/12/2023. All public index values are total return CAGRs. All private capital returns are net of fees and carry.

Whilst the overall asset class has delivered strong returns, there has been significant dispersion across the performance of PE funds. Historically, there has been at least 10 percentage points of IRR difference between the top and bottom quartile managers for a given vintage. This highlights the importance of manager selection to get the best from the asset class and is an area where NBs expertise of identifying talented managers to invest alongside can add value.

**Performance dispersion across PE funds highlights the importance of manager selection.**

Figure 2. Private Equity – IRRs by vintage



Source: Pitchbook, Global Benchmarks Q4 2023

Historically, private equity was only accessible through closed-end funds that require investors to commit capital for a period of 10+ years and where the minimum investment commitments are high. This resulted in the asset class being difficult for many investors except institutions to access. Innovative fund structures have been developed

to better meet the needs of smaller investors. Private asset managers are launching open-ended versions of their strategies, known as evergreen funds. These funds promise similar returns and diversification benefits of traditional private asset funds (traditional funds) but in a more accessible format, with smaller minimum investment requirements, immediate capital deployment, periodic liquidity options, and less operational complexity.

### **Advantages of Evergreen PE funds**

- Evergreen funds typically provide shareholders with the ability to make monthly subscriptions and quarterly redemptions, providing the flexibility to adjust position sizes, meet asset allocation targets or raise liquidity if needed.
- The potential for higher returns as investors' capital is put to work or 'called' immediately so there isn't the dilution of returns that investors in closed-end funds may experience as they wait for their committed capital to be called.
- Through evergreen PE funds, investors can access mature, fully invested portfolios. This allows them to avoid both the negative phase of the J-curve and the uncertainty from blind-pool risk. The J-curve describes the typical return profile of a PE fund with a ramp-up phase in the early years where returns are negative whilst fees exceed investment returns. Blind-pool risk refers to the uncertainty of what a PE fund will invest in post-launch.

### **Disadvantages of Evergreen PE funds**

- There is less choice of PE funds in the evergreen format. Some of the most successful PE fund managers cannot be accessed through the open-ended funds, particularly in the Venture Capital sector.
- There is a liquidity mismatch between open-ended funds' dealing terms and their underlying assets. Shareholders risk being stuck in a fund with a suspension of redemptions.
- Open-ended funds tend to receive inflows after periods of strong performance and outflows after periods of weak performance, which can result in asset managers buying or selling assets at inopportune times.
- Unlike a closed-end fund with an end date, there isn't a commitment from the fund manager of an evergreen fund to return capital to investors.

## The Manager

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### Firm

The fund's investment manager, Neuberger Berman, was founded in 1939 and is headquartered in New-York. It has offices in 26 countries and is 100% owned by its employees.

NB manages \$509bn of client assets, of which \$125bn+ is in private markets strategies, thus representing a large and important part of the overall business<sup>1</sup>. The firm's private equity activities are conducted by NB Alternatives Advisers LLC (NB Private Markets), who have been active in PE since 1986. NB Private Markets made \$30bn in capital commitments across direct PE investments over the last three years.<sup>2</sup>

The longevity and scale of the NB Private Markets platform allows the fund to benefit from significant investment analysis resource and access to a breadth and quality of deal flow that would otherwise be inaccessible.

### Team

NB Private Markets has 420+ members of staff, of which 190+ are members of the investment team and have an average tenure at the firm of 21 years. There has been 98% retention of senior investment professionals (MDs and Principals) over the past 5 years. This confirms that the fund is being managed by the key people that have been responsible for the firm's historic success.

The MDs are responsible for the investment strategy, asset allocation and portfolio construction decisions. They take a lead in due diligence of investments and are actively involved in the monitoring activities by serving on advisory boards of funds or companies.

There is an Investment Committee (IC) for primary fund and co-investments (PIPICO) whose approval is required for all deals in primaries and co-investment. The IC is comprised of the senior leaders within the investment team and the group has an average of 30 years' investment experience. The IC members have varied backgrounds including fund of funds investors, direct investors at buyout funds, and

**NB is a long-established, large asset manager with a substantial portion of its AUM in PE strategies.**

**There is an experienced, team managing the strategy and there has been low staff turnover. The key people who have historically managed the PE strategies at NB are still in-place.**

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<sup>1</sup> Source: Neuberger Berman, 30/09/2024.

<sup>2</sup> Source: Neuberger Berman. Represents opportunities reviewed, made and committed to across primaries, co-investments and secondaries by NB Alternatives from 2Q 2021 – 1Q 2024 for Private Investment Portfolio and Co-investments, and Secondaries.

CEOs of PE backed companies, which makes it well placed to provide meaningful analysis, scrutiny and oversight for the range of investments on the NB platform.

Figure 3. NB Private Markets Investment Committee



The liquid assets portion of the fund is managed by the NB's multi-asset team.

## The Process

### Investment Strategy

The fund follows the firm's core PE strategy of investing into private companies alongside specialist GPs as a minority investor. Through these partnerships the GPs take controlling stakes in US and European companies that have two core characteristics:

- Beneficiaries of long-term secular growth trends.
- Businesses with low expected cyclicality from providing essential or business critical equipment and services.

The companies must be well-aligned with GPs' expertise and abilities to add value, and the transactions structured such that NB can make attractive returns under a range of scenarios.

The see themselves as flexible but disciplined, with a mindset of allocating tactically wherever good opportunities present themselves, but to only invest in high conviction ideas after thorough investment and operational due diligence. Their aim is to be diversified across individual companies, private equity managers, industries, geographies, vintage years, and stages of the underlying companies' development.

**The fund follows the firm's core strategy to partner with third party PE managers to select investments.**

**Their aim is to own quality companies alongside Private Equity managers that can add value to the business. There is an emphasis on designing investment structures to help mitigate risk.**

**This strategy does not make primary fund investments but focuses on owning companies directly alongside GPs.**

## Implementation

A key feature of the NB approach is to use the scale of its platform and relationships to the advantage of their investment strategies. For GPEAF that means investing directly in privately owned companies alongside Private Equity managers through co-investments and GP secondaries, instead of into their funds.

We view the characteristics and profile of co-investments and secondaries as follows:

<b>Segment</b>	<b>Characteristics</b>
Co-investments	<p>A co-investment is where an investor takes a direct minority stake in a company alongside a GP who retains control over how the investment is managed.</p> <p>Co-investments are typically offered by GPs as a perk to the largest investors in their funds as they typically don't charge investment management fees nor carried interest (performance fees) on these investments.</p> <p>Co-investments benefit from the active management of a specialist fund manager whilst avoiding the high fees, blind pool risk and long holding periods that can be associated with primary fund investments.</p> <p>The current environment of high borrowing costs and slower fundraising makes co-investments an important source of financing for GPs to complete transactions.</p>
<b>Segment</b>	<b>Characteristics</b>
Secondaries	<p>Secondary investments are sourced from existing investors in private equity funds or private companies that are seeking liquidity.</p> <p>NB GPEAF's focus is on GP-led secondaries, which is where the GP sells one or more portfolio companies from an existing fund to a new continuation vehicle, managed by the same GP. These transactions typically arise because the existing fund has reached the end of its term, and the GP believes that extra time and capital will allow it to create further value.</p> <p>GP-led secondaries provide a return of capital to LPs wishing to exit and the opportunity for others to continue investing with the GP in a high conviction portfolio company or companies. The challenge for potential investors is navigating the conflict that the GP has with providing their existing holders with a 'successful' exit whilst offering an entry point that leaves room for further valuation upside over time.</p> <p>In the 12 months to 30/06/2024, GP-led secondary volume was \$62bn, highlighting the breadth of deal flow from which to choose.<sup>3</sup> This reflects the environment of muted M&amp;A activity and funds under pressure to return their LPs' capital.</p>

<sup>3</sup> Source: Jefferies, 'H1 2024 Global Secondary Market Review – July 2024'.

### Co-investments – NB’s Approach

The co-investments that NB makes are in the growth and buyout deals of profitable, well-established businesses with good cashflow generation.

Typically, they will be one of the largest equity investors, after the lead sponsor, and often serve as an anchor investor, providing commitments early in the deal process. This means they are given more time for due diligence, have better access to company management, and do not pay fees to the Private Equity manager. This approach gives them a meaningful edge and is made possible by the scale and longevity of both the primary fund business and the co-investment platform.

In addition to co-underwriting deals and investing in traditional, syndicated co-investment deals, they will also invest in mid-life deals where the existing sponsor is looking to extend its ownership period with a different shareholder base.

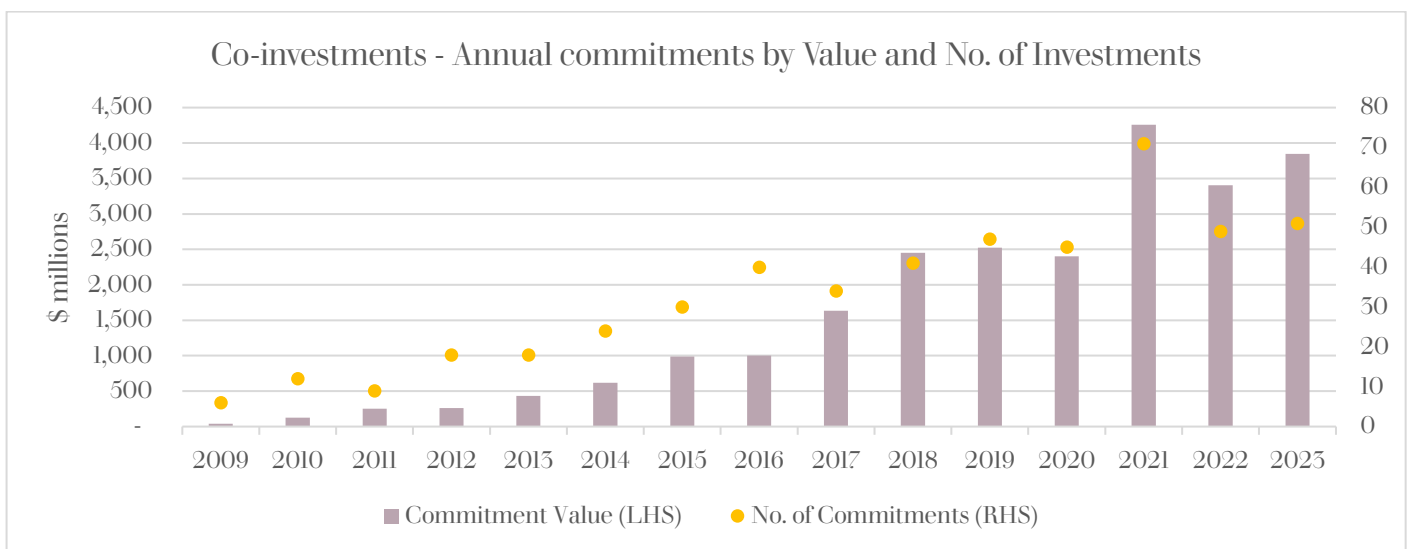
The firm’s investment allocation policy ensures NB GPEAF receives a pro-rata allocation alongside similar accounts and therefore is investing in the same deals, which are approved at the platform level, as its institutional strategies.

In 2023, the team reviewed over 590 co-investment opportunities and invested in around 50 deals, providing nearly \$4bn of commitments. On average, NB has made 52 co-investments each year during the past 5 years.

**NBs willingness and ability to act as an anchor investor gives it advantages in sourcing deals, conducting due diligence and structuring deals in its favour.**

**The scale of the platform allows them to consider and research a broad opportunity set from which they select a small number of high conviction ideas.**

Figure 4. NB Co-investment Activity



Source: Neuberger Berman, 30/06/2024

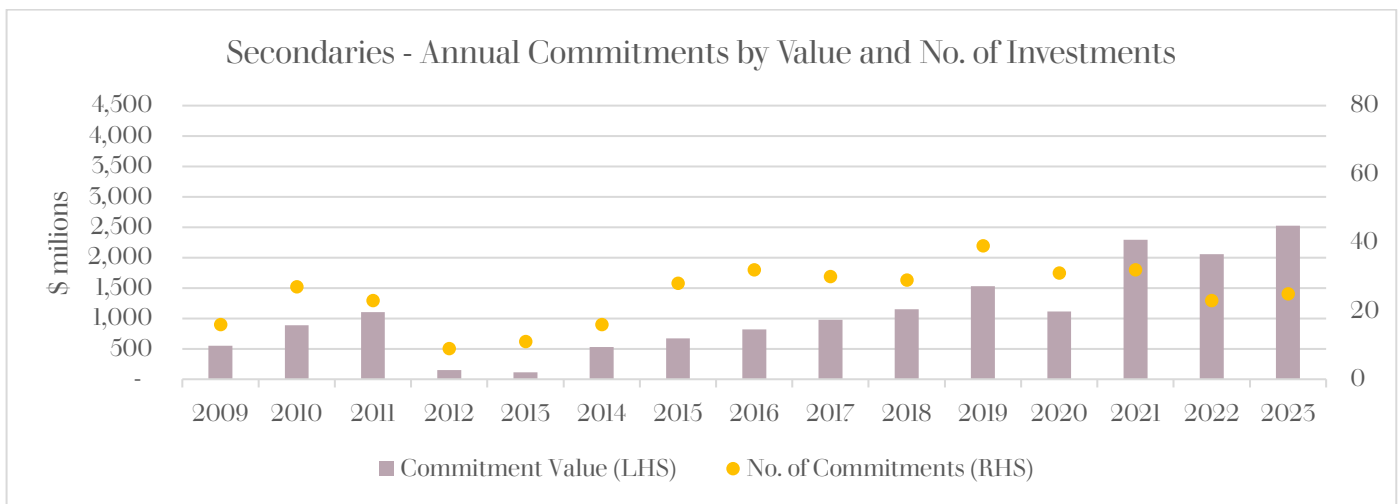
## GP Led Secondaries – NB’s Approach

NB’s focus within GP-led Secondaries is on privately negotiated small to mid-sized transactions or complex transactions. These deals are less competitive which results in better pricing and more scope for favourable deal structuring.

The depth of the team meant they were able to review over 519 secondary PE deals in 2023 and invested in 29 transactions with \$2.5bn of commitments. They have completed an average of 32 deals in each of the past 5 years and the average deal value has increased from \$40.3m to \$84.3m over the period. This remains consistent with the strategy focused on small and mid-sized opportunities so does not appear to represent a drift in their investment style.

**The scale of the platform allows them to consider and research hundreds of opportunities each year from which to select a small subset for investment.**

Figure 5. NB Secondaries Investment Activity



Source: Neuberger Berman, 30/06/2024

## Origination

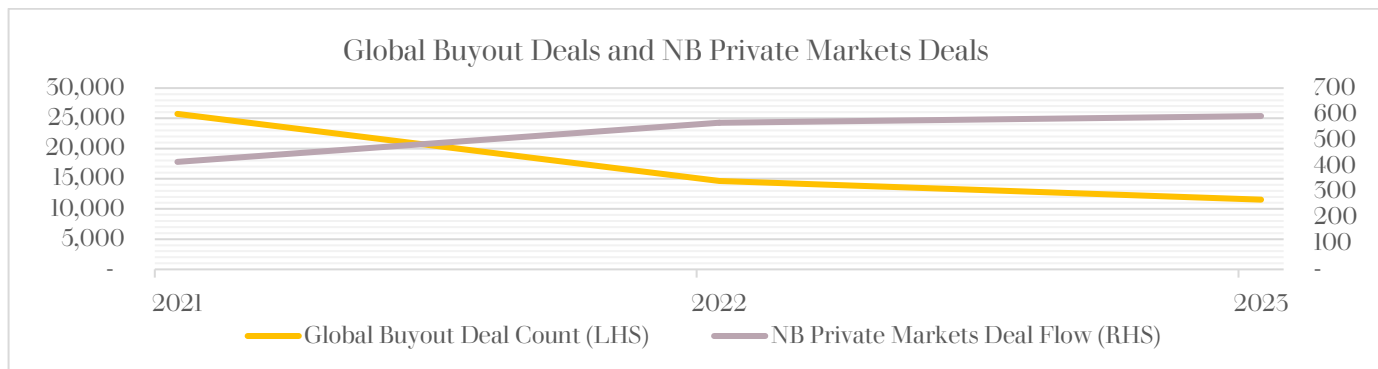
Deals are sourced through NB’s relationships with Private Equity Managers. The firm assigns a deal team, typically of 3-4 people, to take responsibility for conducting due diligence, identifying interest from the program management team, and obtaining approval from the IC. The deal teams also monitor existing fund investments and it’s through this engagement with GPs that they are presented with co-investment opportunities.

Despite the global decline in buyout deals in recent years, NBs deal flow is increased substantially, which reflects the need for GPs to finance deals through co-investments and the growth in GP secondaries. This

**NBs deal flow has increased, whilst the overall sector’s deal activity has declined. This highlights their approach being well-suited to the current environment.**

dynamic is a favourable shift for NB given its focus on these structures and its standing as an experienced, trusted partner that can add value through the due diligence process.

Figure 6. Deal flow



Source: Pitchbook 2023 Q4, NB Private Markets 31/12/2023

To identify these opportunities, they analyse three key elements: the company, the GP and the transaction structure. Thorough analysis of these elements, alongside portfolio diversification, are their key approaches to mitigating risk.

The team is not reliant on GPs or intermediaries for deal flow but will pro-actively propose deals where they have identified an attractive company opportunity. This is evidenced by 39% of their co-investment since 2009 being deals where they co-underwrote the transaction or were the sole minority investor.

New investments are reviewed by NB's Operational Due Diligence Team (ODD) that conduct background checks on the key personnel and ensure the non-investment functions are managed in a strong control environment. This is an important risk mitigant given the allocation to small and mid-market companies that can lead to NB partnering with smaller Private Equity managers. It points to the benefits of being part of the broader NB asset management business, whereby the fund can leverage substantial ODD, legal and risk resources.

### Company analysis

They are looking for high quality companies that are benefiting from secular tailwinds, high barriers to entry and re-occurring revenue to support sustainable earnings growth, low cyclicalities and good quality management teams.

To identify these characteristics, they conduct fundamental analysis of the company, its sector and competitive landscape to determine the quality of the business and the options for adding value.

**NB will proactively source and structure deals in addition to considering those presented to them by GPs and intermediaries.**

**Investment due diligence and operational due diligence are conducted on the companies, GPs and investment structures.**

**Their focus is on GPs that have a track record of adding value through operational improvements to similar companies.**

## General Partner analysis

In the context of co-investments and secondaries, NB want to be confident that the GP can reliably implement initiatives that will add value to the company. A good fit between the company opportunity and the GP's skillset and expertise is essential. This is determined by reviewing their track record in similar opportunities; the relevance of their expertise and resources in place; and the strategies they follow for value creation.

They note that the track record of many GPs during the post-GFC period is flattered by a market-wide increase in valuations and financial engineering made possible by an abundance of cheap debt. NB's approach is to focus on skilful managers that have achieved success through implementing value creation initiatives through a range of market conditions.

**NB has established itself as a preferred partner to GPs, resulting in better deal flow and allocations.**

Value Creation Initiatives	Description
Management Incentivisation	Bringing in the right management teams and incentives.
Resources and Capital to Support Growth	Supporting the expansion or enhancement of the business, which could be into new product lines or geographies.
Operational investments	Guidance and resources to optimise revenue and cut costs.
Strategic M&A	Bolt-on M&A at accretive valuations to expand the company's customer base.

The active approach taken by the GPs they partner with is shown in M&A activity, whereby 70% of the company's historically owned by the firm have completed M&A.

NB has been managing its PE program for over 35 years so has long-established relationships with high quality GPs. Their longevity in the market, size of annual investments, and the reputation with GP means they get preferential access to deal flow. The high bar that the firm takes to partnering with GPs can be seen from them only investing in 7.3% of nearly 800 co-investments and GP-led secondaries that they reviewed in 2023.

## Transaction Analysis

The structure of the transaction plays a huge part in the likely success of an investment, so they are looking for arrangements with favourable risk-reward and downside protection.

**Effective transaction structuring is a key risk management step for NB.**

NB analyse the valuation, proposed capital structures, stakeholder alignment, potential exit strategies and the critical assumptions underlying the GP's investment thesis, value creation plan and financial projections.

By serving as an anchor investor and originating their own deals, they can meaningfully influence deal structures. NB's substantial investment and legal team resource makes these efforts feasible.

### **Investment Committee Review**

There is a multi-step approval process with each investment reviewed in at least three separate meetings. Before the conclusion of this process, the views on the company, GP and overall transaction are formalised into an investment memo for approval by the IC.

The IC meets twice weekly to review opportunities with the entire investment team invited. This demonstrates a collegiate approach and a framework that allows individuals with relevant expertise to challenge and have constructive discussions.

The IC's tenure and stability has created a consistent framework and quality control standard for reviewing investments from which this fund benefits.

## **Monitoring**

The deal teams are expected to provide ongoing, in-depth analysis of each fund and its associated portfolio companies. They are focused on the monitoring each fund's deal pipeline, portfolio company progress and exit plans as well as team stability and the implementation of the strategy is consistent with their expectations and a return forecast.

NB Private Markets is a limited partner in over 770 active private equity funds and sits on over 420 fund advisory boards. This workload should be a manageable given the size of the investment team.

The deal teams' close monitoring of portfolio companies and funds enables them to provide meaningful input into the valuation process.

**The Investment Committee has a meaningful role in the due diligence of all investments. The experience and stability of the IC should ensure consistency of diligence standards.**

**NB has over 420 seats on advisory boards so is close to the detail of the companies and funds that is monitoring post-investment.**

**There appears to be adequate resourcing to enable the team to conduct robust due diligence and monitoring.**

**The fund provides broad exposure to new investments originated by the NB platform.**

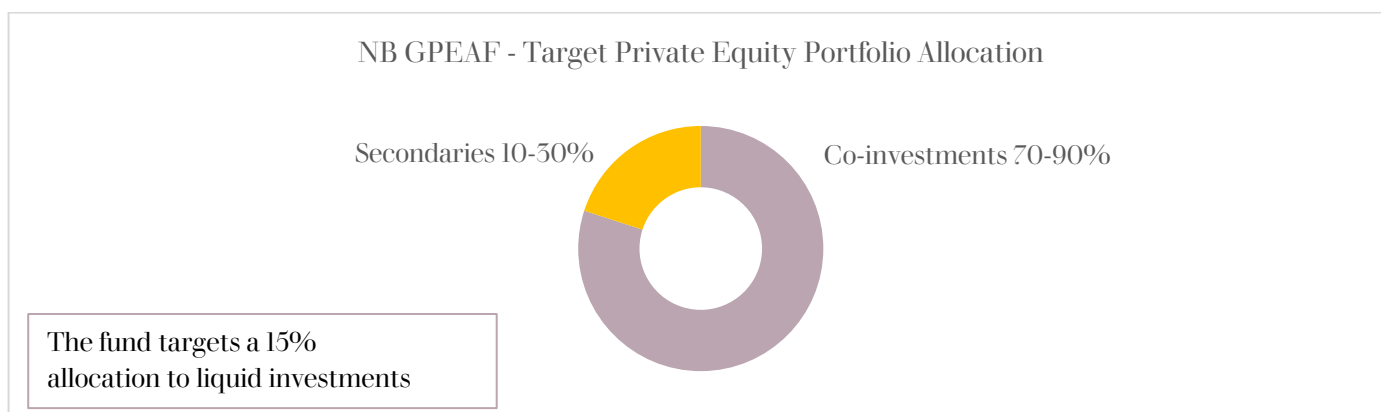
## Portfolio Construction

The manager views portfolio diversification as a key driver for success and they aim to be diversified across geographies, industries, GPs, vintages and company maturity.

If an investment is approved at the platform level, the expectation is that the fund will invest if it has cash, and the deal fits from a portfolio construction perspective. The intention is for the fund to invest in-line with the firm's institutional mandates and to provide broad exposure to the NB private equity platform.

The fund is still in its growth phase but is expected to have 100-150 positions when in its steady state.

Figure 7. Target Asset Allocation



The asset allocation target is for 85% to be invested in private equity assets and the other 15% to be invested in liquid assets. Of the private equity assets, 70-90% is intended to be co-investments and 10-30% in secondaries. The fund is primarily a co-investment strategy but has sufficient flexibility to be opportunistic about deal structures.

## ESG

This fund is an SFDR article 6 fund and doesn't have a sustainability scope. However, ESG analysis is integrated into its private equity strategies with deal teams responsible for conducting ESG analysis and presenting it within its investment memos. The intention is to assess and present industry-specific material ESG factors, both negative and positive, for the ICs consideration as a part of its overall investment evaluation.

**The fund is tilted towards co-investments but with flexibility to have deals sourced through GP secondaries.**

**ESG analysis is integrated into the investment process and the firm follows a series of sector exclusions.**

NB is a UNPRI signatory, and their 2023 PRI Assessment achieved the highest possible scoring across all categories for their overarching approach to ESG for the fifth year in a row. They also scored the best possible ranking across all asset classes, including the PRI's new private debt category highlighting the strength of its approach within private markets. The quality of the firm's strategic approach was recognised in Oct 2020 with the firm being named in the PRI Leader's Group, which consisted of 20 investment managers selected from 2,100 PRI signatories.

NB apply a set of firm-wide negative screens that restrict investments in Thermal Coal, Weapons, Tobacco, Alcohol, Oil and Gas Production or Extraction, Fossil Energy Production, Nuclear Power, Gambling and Pornography.

## The Portfolio

### Current Positioning

The fund is currently invested in 49 companies across 35 different private equity managers.

Figure 8. Top 10 Holdings

Company	Investment Type	Sponsor	Core Industry	Core Geography	% of NAV
Bending Spoons	Co-investment	NB Renaissance	IT	Europe	5.1%
Project Mach	Secondary (GP-Led)	GenNx360	Services		5.0%
Action	Co-Investment	3i Group	Cons Disc	Europe	4.0%
Project Ike	Secondary (GP-Led)	Undisclosed	Diversified		2.8%
Accountor	Co-investment	KKR/Vitruvian	Software	Europe	2.7%
Mariner	Co-investment	Leonard Green	Services	United States	2.3%
FDH Aero	Co-investment	Audax	Industrials	United States	2.0%
BlueSea Hotels	Secondary (GP-Led)	Portobello Capital	Other	Europe	1.8%
Varsity Brands	Co-investment	KKR	Consumer	United States	1.7%
Omnia Partners	Co-investment	TA Associates	Business Services	United States	1.7%

Source: NB, 14/11/2024

The investments to-date have been made alongside 35 GPs. The portfolio's diversification across deals and GPs would usually only come with a fund-of-fund approach and its additional layer of fund costs.

Figure 9. Top 10 General Partners

General Partners	Weight
NB Renaissance	10.33%
Undisclosed	9.63%
GenNx360	8.41%
KKR	8.41%
3i Group	6.83%
TA Associates	5.95%
EQT Partners	5.25%
Leonard Green & Partners	4.03%
Veritas Capital	3.50%

Source: NB Private Markets, 31/10/2024. Weights adjusted to reflect pending investments and undrawn commitments.

The fund is well-diversified by portfolio company, GP, industry and geography.

The fund is skewed towards high growth sectors that are benefitting from favourable long-term trends.

Earnings, valuation and leverage metrics are not published yet as most portfolio companies have been held for less than one year.

### Case Study - Action

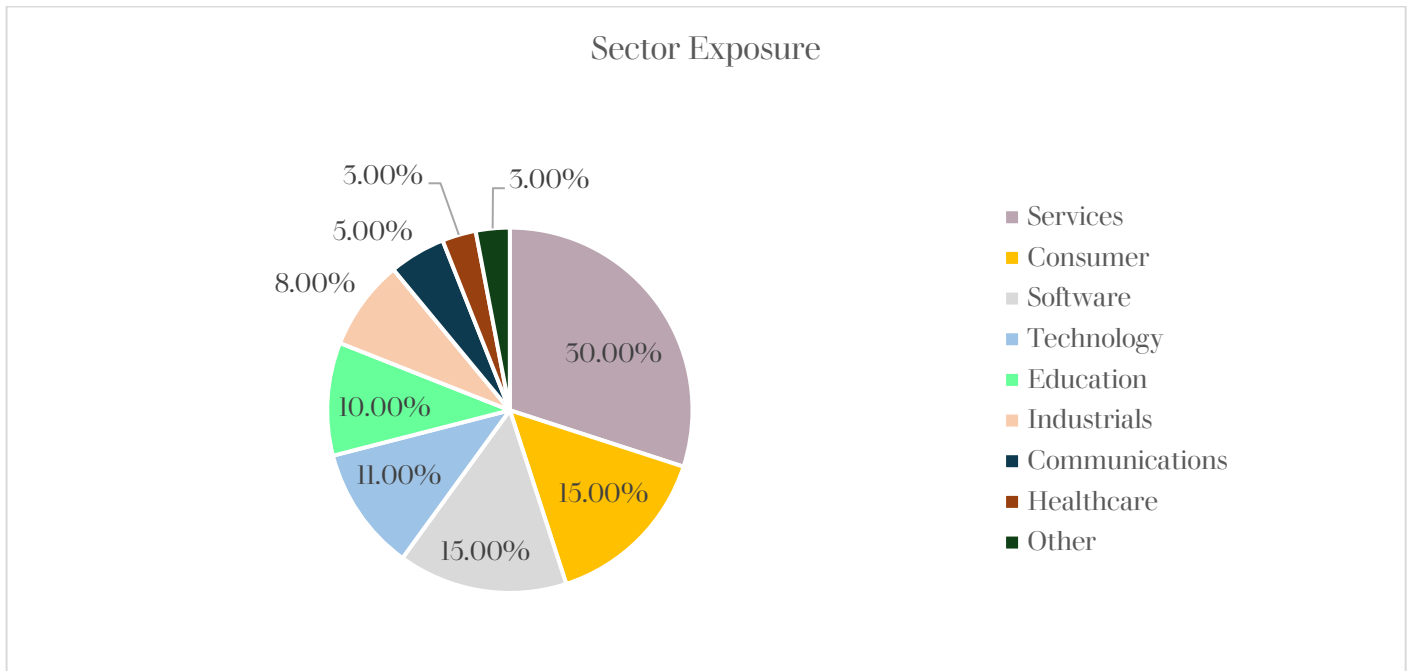
One of the fund's largest positions is 'Action', Europe's fastest growing non-food discount retailer. The fund's mid-life co-investment was made in March 2023.

NB first invested in Action as a co-investor in 2020 alongside 3i, but had known the business for several years having previously been invested in 3i's Eurofund V.

Action's business is well-suited to NB's strategy for its defensive business model focused on discount retail; a GP that has delivered significant success with the company already by rolling out stores into different countries and markets, with plans to continue doing so.

The fund's largest sector exposures are in technology, consumer/e-commerce, industrial technology, and healthcare-related businesses. This is consistent with the objective of focusing on businesses with structural tailwinds, providing business critical services and products, and low cyclicity. The fund is skewed towards US companies and co-investment opportunities.

Figure 10. Sector Exposure

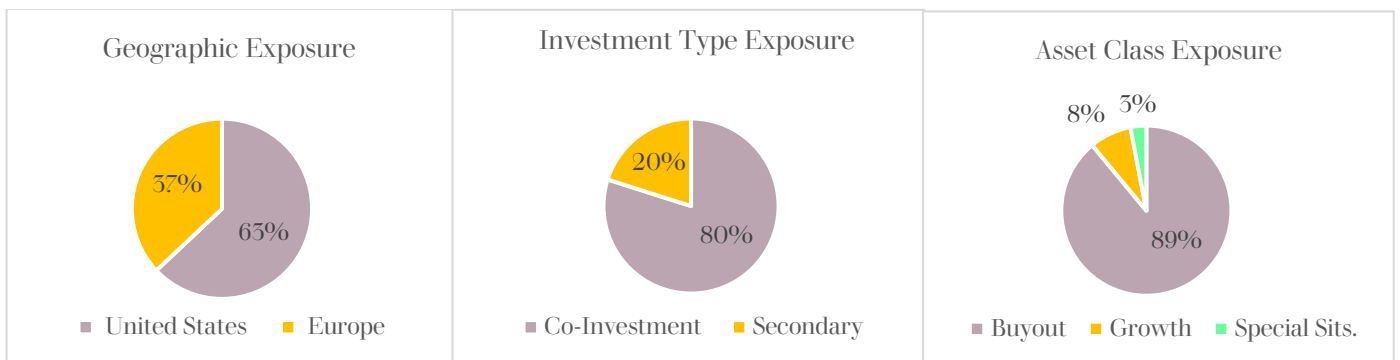


Source: NB Private Markets, 14/11/2024. Exposure defined as NAV + unfunded commitments. Includes pending transactions.

It is a young portfolio with the average position held for 10 months so it is unlikely that the fund will be making material distributions in the near-term, noting the average holding period by private equity managers is 3 to 5 years. However, the fund's strategy focus on GP-led secondaries and mid-life co-investment deals means the deals are typically more mature than primary co-investment deals where the GPs are buying a new company.

There is no leverage at the fund level, which is consistent with the broader approach taken by NB Private Markets.

Figure 11. Geographic, Investment Type and Asset Class Exposure



NB Private Markets, 14/11/2024 for geographic exposure and asset class exposure. 31/10/2024 for investment type exposure. Exposure defined as NAV + unfunded commitments. Includes pending transactions.

## Performance

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### Return Target

The fund's investment objective is to generate long-term capital growth. There is not a formal return target.

Private equity deals for the NB platform are underwritten to a 20% gross IRR and are intended to comprise 85% of this fund. Combining this with a 15% liquid assets bucket that yields 5% suggests mid-teens total returns are the ambition.

NB believes gross IRRs of 20% can be achieved in the current environment, based on guidance from their partnering GPs and the deal underwriting they have conducted on their portfolio companies. The drivers of these returns are increasingly expected to come from revenue and earnings growth and M&A as opposed to multiple expansion and debt paydowns.

### Historic Returns

The fund's track record is too short to draw firm conclusions, but the returns to date are promising with a 10.38% annualised return<sup>4</sup>. 19% of the portfolio is still held at cost so there should be potential for further upside over the medium-term.

Looking more broadly, NB's track record across both co-investments and secondaries has been excellent, with strong returns driven by a large sample of exits over more than a decade. The Net IRR on realised co-investments has been 25%, driven by 154 portfolio sales or 'exits' between 2009 and 30 June 2024. The secondaries investments delivered 21% net IRR on 211 exits. By comparison, the median net IRR for the Pitchbook private equity benchmark was 15.4% net in the 15 years to March 2024<sup>5</sup>.

NB's annual investments or 'vintages' have outperformed the peer group and been underpinned by higher realised gains. The firm's Distributions to Paid in Capital ratio (DPI) has been higher than the Pitchbook Private Equity peer group median in 12 of the past 14 years.

**New PE deals are underwritten to deliver a 20% IRR.**

**The fund has delivered promising returns since inception.**

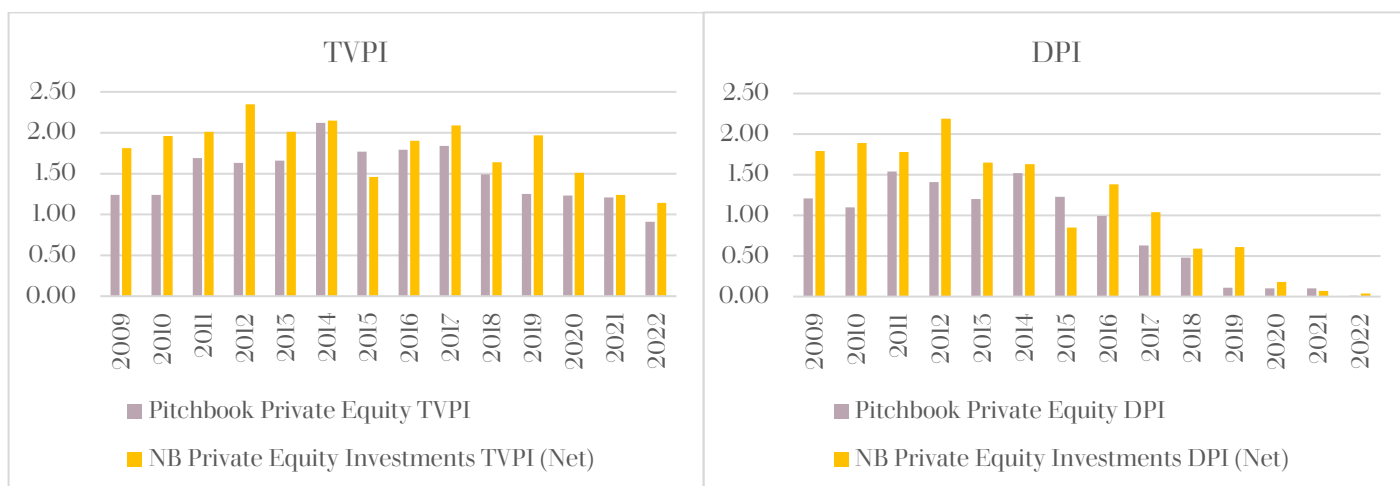
**The firm's track record in PE has been excellent across hundreds of investments made over more than a decade.**

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<sup>4</sup> Annualised since inception to 31/10/2024 (S1 USD share class)

<sup>5</sup> Source: Pitchbook, 'Global Pitchbook Benchmarks', Q1 2024

Figure 12. Returns for NB's PE platform and Pitchbook PE Benchmark



Source: NB, 30/06/2024. Pitchbook, Q4 2023.

NB Private Markets has managed a listed evergreen private equity strategy, NB Private Equity Partners Ltd. (NBPE), since Dec 2007 and an open-ended PE fund for US investors, NB Private Markets Access Fund, since Jan 2021. Whilst these funds are not directly comparable to NB GPEAF, they do provide some insight into the manager's track record of managing evergreen private equity strategies.

NBPE started its life as a fund-of-fund strategy but now has a similar focus on co-investments. In the 10 years to 30/06/2024, NBPE returned an annualised NAV total return of 14.55%. The NB Private Markets Access Fund has delivered more muted annualised total returns of 7.8% since inception. The fund had a substantial cash balance at launch, which was a drag on performance as it waited to deploy into a sufficiently diversified portfolio. The experience and lessons learned from managing NBPE and the NB PM access fund should be to the benefit of NB GPEAF.

## Fund Operations

### Dealing

The fund's dealing terms are slightly less restrictive than wider peer group of open-ended private equity funds. It has monthly subscriptions and monthly redemptions. The fund allows net redemptions up to 5% of NAV each quarter. Redemption requests of more than of 5% will be reduced pro rata until equal to or below the 5% cap. There are no further restrictions on redemptions or 'lockups' to discourage redemptions.

**NB has been managing evergreen PE funds across multiple market cycles so is experienced in the additional requirements necessary for the structure to be successful.**

**The fund's dealing policy is for monthly subscriptions and redemptions. There is a 5% limit on net redemptions per quarter but no 'lockups' to prevent or discourage investor redemptions.**

**The fund has numerous sources of liquidity to draw upon in the event of redemptions.**

## Liquidity

The fund aims to meet its liquidity needs by having a 15% allocation to liquid assets, primarily cash and short duration fixed income. It also has the ability to use a credit facility to meet short-term liquidity needs (max. 25% of NAV). Investor inflows and capital returns from selling assets may also be sources of liquidity.

Assuming the manager holds its positions for 5 years, then 20% of the fund's value would be returned as cash each year. Combined with the liquid assets bucket, the fund could have up to 35% of the portfolio value available as cash each year. This provides flexibility and shows that the fund's policy of offering net redemptions of 5% per quarter is reasonable.

## Fees

The institutional share class charges a 1% management fee and carried interest of 12.5% over an 8% hurdle with full-catch up. This is consistent with the wider evergreen funds peer group but lower than the closed end fund sector where the market standard is 2% management fee and 20% carried interest with an 8% hurdle. The carried interest fee is charged against realised gains from private equity assets, which means cash drag and management fees are excluded from the carried interest return hurdle.

The Key Investor Document (KID) for the I USD share class presents the expected performance fee under a 'moderate;' scenario whereby the fund returns 13.47%.

**Fees at the fund level are consistent with the wider open-ended PE sector. The co-investment model allows the fund to capture the benefits of investing with specialist third-party managers without the extra layer of cost.**

Figure 13. Fee Breakdown

Fee Type	Fee Range
Entry & Exit Fee	0.00%
NB Private Markets investment management fee	1.71%
Transaction Costs	0.07%
Performance Fees and Carried Interest	1.14%*
<b>Fees</b>	<b>2.85%</b>

Source: Neuberger Berman, Key Investor Document I Acc Share Class, 30/06/2024

\*assumes an annual return of 13.47%.

## AUM and The Shareholder Base

The fund launched in Dec 2022 and currently has an AUM of \$160.0m. Based on the pipeline of opportunities and resourcing capacity at NB Private Markets they are confident that they could deploy \$2.5-\$3bn p.a. into the strategy.

NB Private Markets manages \$8 billion in evergreen strategies and has been doing so for almost 20 years so has the experience to handle the additional dealing and valuation responsibilities that come with these structures.

## Valuations

The fund's NAV is calculated monthly based on an assessment of each underlying asset's value at the same frequency. For company valuations, they start with the quarterly information provided by the GP, then apply a set of adjustments to reflect market and company conditions that may have changed in the time since the GP's asset valuation. They calculate a market factor adjustment based on the company's sector, geography and yield curve shifts in its market. Given the lag between a valuation point and the valuations being received from the GPs, all portfolio positions are subject to market adjustment factors on a continuous basis.

A third-party valuation agent provides an assurance on the valuation methodology and reviews each portfolio position on a rolling 12-month basis. Position sizes greater than 5% are reviewed monthly. This external valuation gives confidence in the NB approach. There appears to be a conservative bias in NB's or its GPs' valuations as they have experienced significant uplifts to carrying value when positions are sold. NBPE's average uplift to carrying value when selling positions was 39% over the past 5 years.<sup>6</sup>

**The NAV is calculated monthly using assessments of the underlying assets. The external assurance on the methodology and valuations of the largest assets each adds a layer of additional control.**

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<sup>6</sup> Neuberger Berman, 31/03/2023

## Report Disclaimer

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