

SCHRODERS CAPITAL SEMI-LIQUID GLOBAL PRIVATE EQUITY

Initiation Note | Q4 2024

Our View

This is one of the longest running semi-liquid PE funds and stands out due to its integration with a well-established platform that has delivered excellent returns over the long-term. Schrodgers' robust controls and sensible liquidity management give confidence that the risks of allocating to private assets in an open-ended structure are well-managed. The fund's diversified approach makes a useful allocation to a wider multi-asset portfolio. Additionally, the absence of a performance fee makes this a relatively low-cost strategy within the private equity sector.

Summary

Overview

Schrodgers Capital Semi-Liquid Global Private Equity (SCSL GPE) is an open-ended, evergreen, private equity fund aiming for returns of 12-15%. Its strategy is acquiring stakes in small and mid-sized unlisted companies in Europe and the US, as well as providing growth capital to Asian companies. The strategy is executed through partnerships with private equity managers, utilizing a mix of fund investments, equity co-investments, and GP-led secondaries.

The Manager

The 60-person team at Schrodgers, previously Adveq, has been managing the key components of this private equity strategy for over 20 years, establishing an excellent track record. The fund leverages the broader Schrodgers platform, which grants it access to high-quality private equity managers that are often unavailable to many investors.

The fund is managed with a team approach and the key personnel that generated the firm's track record are still in-place. Schrodgers has continued to strengthen and expand the wider team.

Asset Class	Private Equity
Manager	Schrodgers Capital
Inception Date	30/09/2019
Domicile	Luxembourg
Dealing Frequency	Monthly Subscriptions Quarterly Redemptions
Fund Size	\$2.04bn (30/09/2024)
Regions Marketed	Asia, Europe
Fund Website	Website
Management Fees	1.45% to 1.90% (share class dependent)
Performance Fees	None
SFDR Classification	Article 6
Legal Structure	Lux SICAV Part II (UK LTAF OEIC feeder)

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.

Process

The fund's focus on small and middle market buyouts exposes it to a market segment where there are meaningful opportunities to add value to portfolio companies. The team's edge comes from its experience and processes that enable it to identify companies and investment structures that offer high returns and good visibility in a cost-efficient manner.

The investment process showcases a deep understanding of the sector's dynamics, employing advanced techniques for investment analysis. The manager's commitment to maintaining high standards is demonstrated by the adoption of ISAE 3402 standards that require external audit of the processes and controls.

Portfolio

The fund is structured to participate in all suitable deals that are originated by the Schroders private equity platform, resulting in diversified portfolio of approximately 95 holdings. These holdings are spread across regions, sectors and managed by a wide range of private equity managers.

The portfolio has shown strong performance, with significant revenue growth over the past twelve months. Most of the portfolio is still valued near cost, indicating substantial potential for further upside.

Performance

The fund's returns have been generated from a wide set of successful investments. When evaluated alongside the firm's long-term track record of outperformance across vintages and strategies, it gives confidence in their ability to continue delivering success. Under conservative assumptions, we expect the fund to deliver attractive returns over a 5-year period.

Operations

PE has historically delivered excellent returns but has been challenging for many investors to access due to its illiquidity and high minimum investment requirements. The fund addresses these barriers by providing investors with the ability to make regular subscriptions and redemptions, and by maintaining low minimum investment requirements.

Fund Summary Risk Indicator

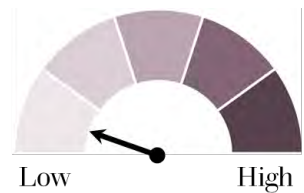


Source: Schroders Capital, I A Acc USD Key Information Document 30/09/2024

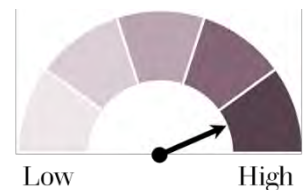
Asset Class Risk Level



Asset Class Liquidity



Asset Class Return Potential



The fund's dealing policy, approach to liquidity management and diversified shareholder base help mitigate the inherent liquidity risks of holding illiquid assets in an open-ended fund structure. Additionally, the fees are reasonable for the expected returns and are very competitive compared to other private equity strategies.

Using the Fund in a Portfolio

The open-ended structure provides investors with access to PE returns with improved liquidity and flexibility. The fund offers a solution for investors who cannot allocate to closed-end PE funds due to the operational constraints, illiquidity or high minimum investment requirements.

Open-ended PE funds can assist with managing a broader allocation to direct PE as it allows investors to right-size their overall sector exposure when waiting to deploy capital into closed-end PE fund positions.

The fund is sufficiently diversified by underlying manager and investment that it could serve as a core allocation to PE within a broader portfolio. The fund's focus on small and mid-market opportunities can complement other PE funds that target larger companies.

The fund is structured as a Luxembourg Part II SICAV so it can be marketed to professional investors across Europe and, subject to local market restrictions, to retail and semi-retail investors in most European countries. There is a UK LTAF OEIC feeder that makes the fund accessible to retail investors in the UK.

Asset Class View - Private Equity

Private Equity

PE as an investment strategy typically describes buying controlling stakes in private companies with a view to adding value through implementing business improvement initiatives before selling at a higher valuation. Historically, the asset class has delivered excellent long-term returns, far ahead of other major asset classes.

The fund could be used by investors that are unable to invest in traditional PE funds, or wish to increase the flexibility and liquidity of their PE allocation.

The fund's diversified approach makes it suitable as a core allocation and it would complement other funds that are focused on investments in larger companies.

Figure 1. Asset Class Returns

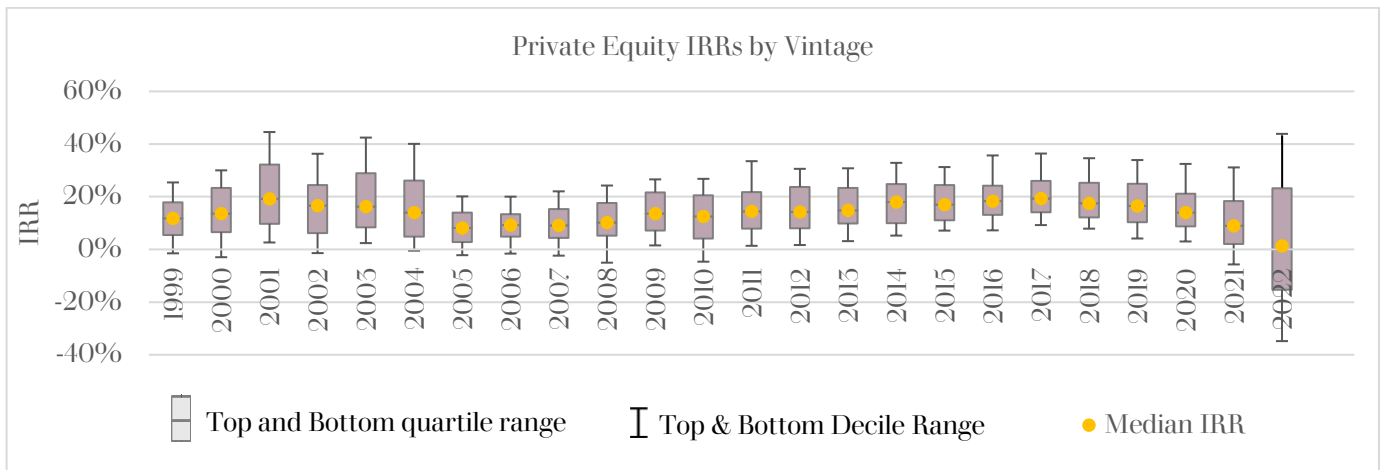
	Strategy	1-year	3-year	5-year	10-year	20-year
Private	Private equity	10.55%	16.65%	17.66%	15.48%	14.16%
	Venture capital	-2.97%	7.35%	14.07%	13.00%	10.05%
	Real estate	-4.23%	9.36%	7.98%	9.42%	7.32%
	Real assets	8.54%	14.33%	8.51%	7.68%	7.99%
	Private debt	9.24%	10.49%	8.52%	8.44%	8.96%
Listed	S&P 500	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 wide performance dispersion across 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.¹ This highlights the importance of manager selection to get the best from the asset class.

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

Figure 2. Private Equity – IRRs by vintage



Source: Pitchbook, Global Benchmarks Q4 2023

¹ Q3 2023 PitchBook Benchmarks (with preliminary Q4 2023 data). <https://pitchbook.com/news/reports/q3-2023-pitchbook-benchmarks-with-preliminary-q4-2023-data>

Evergreen Funds

Historically, private equity was only accessible through closed-end funds that investors commit capital to for a period of 10+ years and where the minimum investment commitments were high. This resulted in the asset class being difficult for many investors except institutions to access. Innovative fund structures have been developed with private asset managers launching open-ended versions of their strategies, known as semi-liquid or evergreen funds, to better meet the needs of smaller investors. These funds promise similar returns and diversification benefits of traditional private asset funds (traditional funds) but with smaller minimum investment requirements, immediate capital deployment, periodic liquidity options, and less operational complexity.

Figure 3. Advantages and Disadvantages of Evergreen funds Compared to Traditional Closed-end Funds

The terms ‘semi-liquid’, ‘open-ended’ and ‘evergreen’ are used interchangeably to describe private asset funds that have a permanent life and offer semi-regular liquidity.

Advantages

- 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

- 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.

Perpetual Life Funds – Evergreen open-ended Funds and Listed Closed End Funds

Amidst the excitement about evergreen private asset funds, it's worth remembering that for decades listed closed-end funds have made it possible for small investors to access private asset strategies with ongoing liquidity options.

Listed closed-end funds issue shares through an IPO and use the proceeds to acquire assets. Shareholders seeking liquidity must trade their shares on the stock market as the funds do not allow redemptions. This makes the structure well-suited to private assets as there is no requirement for the manager to maintain an allocation to liquid assets. Like evergreen funds, closed-end funds have a perpetual life and offer investors access to mature, fully invested portfolios.

The decision to invest in private assets through semi-liquid funds or listed closed-end funds, may be influenced by the following considerations:

Trading and Volatility

The shares of closed-end funds trade continuously on the stock exchange, which if sufficiently liquid, gives shareholders the flexibility to adjust position sizes. The downside of being listed is that the share prices have much higher volatility and sensitivity to the equity market, undermining the diversification from the underlying private assets.

Pricing and Market Dynamics

A closed-end fund's share price depends on supply and demand, and can trade above or below the fund's NAV. This presents trading opportunities to acquire the shares at a discount to NAV, which can be a meaningful source of additional returns. However, it also means the share prices can become disconnected from the NAV for extended periods, and they tend to fall during periods of market stress.

Cost and Charges

Before the implementation of PRIIPs Regulation in 2018, closed end funds did not report costs, which made them an optically cost-efficient way for investors to gain exposure to private assets. If a private equity fund that charges a 2% management fee and 20% carried interest delivers a 12% annual return, there will be a 4% cost, which can be problematic for investors constrained by a fee budget despite the attractive net-of-fee returns. There is an ongoing tussle over the cost treatment for listed closed-end funds, with the potential that they regain the zero-cost treatment, which would increase their appeal to some investors.

Closed-end funds offer another route to owning private assets in a structure that facilitates regular liquidity.

The closed-end fund structure has proven popular for owning private assets as it does not permit shareholder redemptions.

In the UK, closed-end funds have historically enjoyed favourable regulation on the treatment of their charges. This may be re-introduced.

Investment Opportunities

The relative quality of the funds and managers that can be accessed through the two investment structures.

Liquidity

The evergreen fund structure with its inherent liquidity mismatch and risk of redemption suspensions makes some investors uneasy. Whilst closed-end funds can be traded throughout stock market hours, in practice they are typically small with limited traded volumes so it can be challenging to trade large positions quickly without moving the price.

Relative value

If the closed-end funds trade at a substantial discount to NAV and there is a reasonable prospect of the discount closing, this may be more attractive than buying shares in an evergreen fund at NAV. The inverse is true for closed-end funds trading at a premium.

Portfolio Allocation

Whilst private assets should be viewed as long-term investments, those that can use both structures give themselves the broadest opportunity set, with multiple routes to liquidity, and the potential to lean into relative value opportunities as they emerge.

The Manager

Firm

The fund is managed by Schroders Capital, a London-based fund manager that provides private markets solutions to institutional investors and the wealth management sector. Schroders Capital oversees \$17bn in private equity strategies and sits within the wider Schroders asset management business with \$956bn AUM. The fund constitutes a significant portion of Schroders Capital's overall AUM, and private markets are a key focus for the firm, motivating them to support the fund's continued success.

Schroders entered the private equity business through the acquisition of Adveq in Oct 2017. Adveq, established in 1997, launched its European, US and Asian private equity programs in 1998, 2005 and 2006, respectively. These long-established strategies have been tested across multiple market cycles. Currently, Schroders deploys £2.5bn per annum on a run-rate basis across 100 private equity investments, making them a sought-after client for private equity managers.

Closed-end funds offer another route to owning private assets in a structure that has more liquidity than the underlying assets.

Closed-end funds offer continuous liquidity but higher volatility and sensitivity to the equity market.

Cost constraints, relative valuations and the quality of PE opportunities may influence an investor's preference for closed-end funds or evergreen funds.

Team

The Schroders Capital Private Equity Team comprises 60 investment professionals located in Zurich, London, Beijing, Singapore and Seoul. The team has grown significantly since the strategy's inception, with 33 additions and only 7 departures.

Leadership

The fund's lead Portfolio Manager is Benjamin Alt, who has been with the firm for 16 years and developed the global strategy. He plays an active role throughout the investment process, influencing the origination pipeline, engaging in the selection process through his position on the investment committee, and leading the portfolio implementation with support from the portfolio management team.

Team Structure and Focus

Within the investment team, individuals are organised into deal teams of 2-3 people that collaborate on both manager selection and deal selection. There is a strong emphasis on fundamental company analysis, with team members typically have backgrounds in consultancy and investment banking. For complex structures, there is a specialist secondaries team that will supplement the deal teams' analysis. The team-based approach to fund and company selection encourages a broad and deep understanding across the investment team, enhancing resilience to staff turnover. The commitment to rigorous investment analysis is evident in their policy of appointing new deal teams to analyse 'Re-up' investments into the latest fund vintages of strategies where they have existing exposure.

Investment Committee

There is a Global Investment Committee (IC) function that is required to provide unanimous approval for all investments across the firm. The IC is the key decision-making step within the investment process and comprises senior leaders within the investment team. There has only been one personnel change on the group in the past 16 years, ensuring stable leadership and continuity in the investment approach.

Global Investment Committee Members

IC Member	Inv. Experience	Role	Key responsibilities
Rainer Ender	23 years	Global Head of PE	Team leader and IC member
Tim Creed	20 years	Head of PE Investments	Head of investments, Man. Co. member, and IC member
Nils Rode	19 years	Chief Investment Officer	CIO, Man. Co. member, and IC member
Lee Gardella	17 years	Head of PE North America	Head of PE North America, lead of Investment Risk and Monitoring, IC member.
Benjamin Alt	16 years	Head of Global PE Portfolios	Head of Portfolio Management Team, Head of PE Consumer Investments Team, and IC member

The fund is managed by a large, experienced team that has been stable.

The senior members of the investment team are highly engaged in the investment origination process.

The disciplined team-based approach ensures a wide knowledge of portfolio companies and a critical assessment of all new investments.

The Process

Investment Strategy

The fund aims to deliver capital growth by investing in small and mid-sized private companies undergoing transformational growth. Managed according to the firm's core investment strategy and processes, it continues the practices established before Adveq was acquired by Schroders in 2017.

The fund invests alongside private equity managers or General Partners (GPs) by taking direct stakes in companies via co-investments and GP-Led Secondaries, as well as investing in private equity funds. The strategy focuses on partnering with GPs who take majority stakes in deals and specialise in a specific sector or company situation where a clearly defined playbook for adding value has led to repeated success.

To achieve downside protection, the fund seeks business models that are resilient through economic cycles and benefit from supportive long-term supply and demand dynamics. This is reflected in their sector biases towards healthcare and technology.

Small and Mid-Market Buyouts

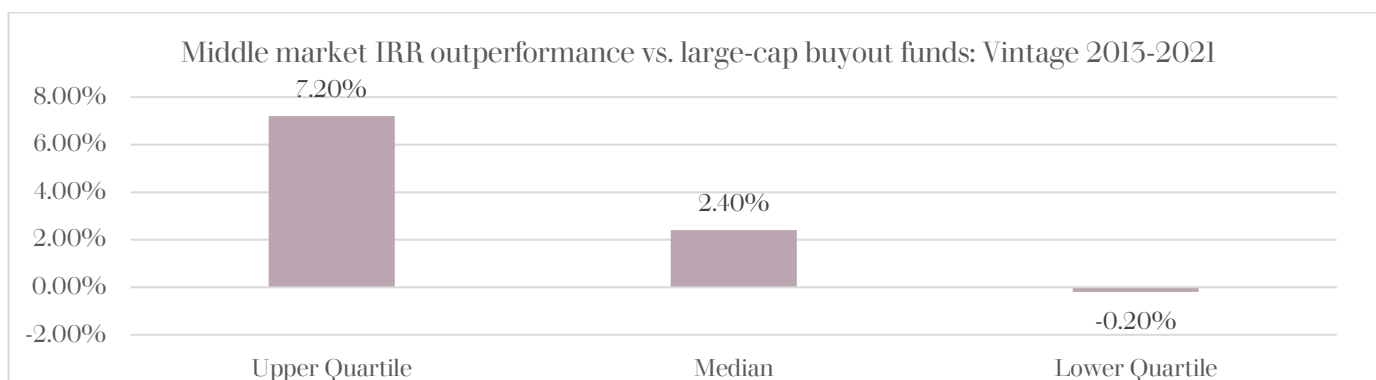
Schroders define 'small and mid-market buyouts', as taking controlling ownership stakes in companies with an enterprise value of \$200 million to \$300 million, where they can take \$20 million co-investment stakes. The focus on specialist private equity managers in the smaller end of the market is evident, as 80% of the managers they invest with have funds with less than \$2 billion AUM.

Historically, mid-market buyout funds have delivered strong returns and outperformed large-cap buyout funds, which can be explained by several factors.

The fund is focused on small and mid-market buyout transactions, which is the firm's core investment strategy.

The fund partners with specialist GPs that have track-records of adding value to portfolio companies through a range of initiatives including M&A and operational improvements.

Figure 4. IRRs by buyout fund size



Source: Pinebridge, 'Why We Think the Middle Market Can Beat Out Large-Caps in Private Equity Investing', 21/06/2024

Operational Improvements

Smaller companies offer more opportunities for value enhancement through better management practices, cost reductions, and market expansion.

Bolt-on M&A

Growing a portfolio company through acquiring smaller, complementary businesses can rapidly increase earnings by increasing market share and unlocking operational synergies. When these acquisitions made at lower valuations than the acquiring portfolio company there is a value uplift to the combined entity known as 'multiple arbitrage', as shown in the example below.

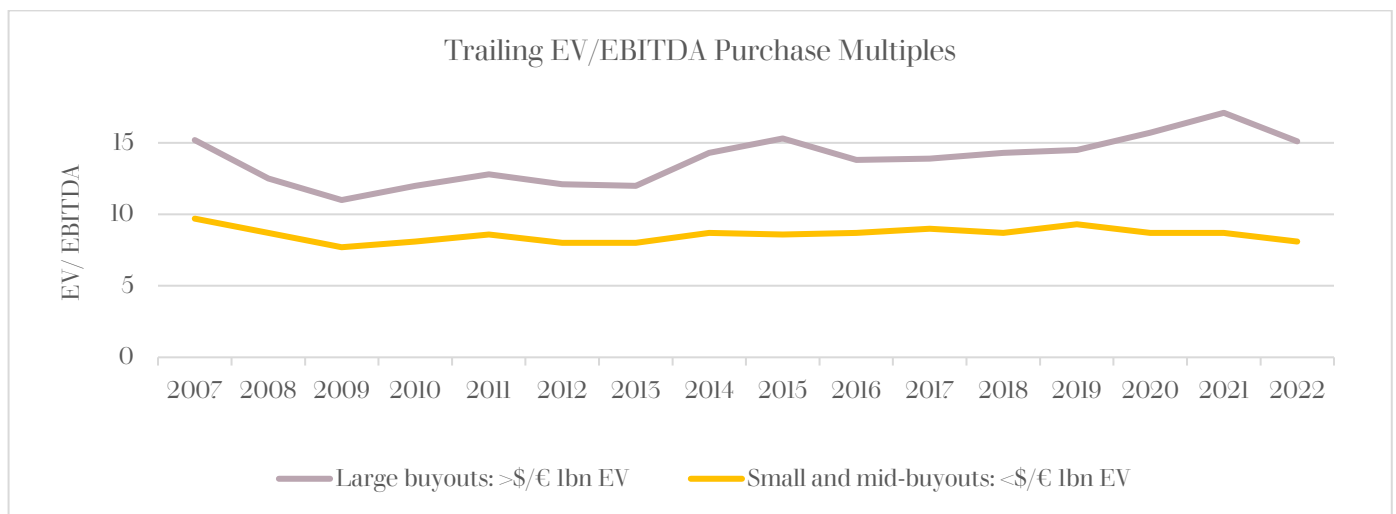
Figure 5. Multiple Arbitrage Example

	LTM EBITDA (\$)	EV/EBITDA Multiple	EV (\$)
Portfolio Company	100	10	1000
Target Company	10	5	50
Combined Entity	110	10	1100

Valuation Discounts

On average, small and mid-market companies trade at lower valuations than large companies, thereby providing a route for smaller companies to increase their valuation by growing.

Figure 6. Valuation Multiples Across Deal Sizes



Source: Baird 2020, S&P 2020, Schroders Capital 2024

Implementation

The fund achieves its exposure to companies by partnering with private equity managers in a mix of direct/co-investments and fund investments.

The team has been managing the strategy for decades and has long-established relationships, enabling them to access sought-after deals that are difficult for most investors to reach. Notably, 77% of the private equity managers they partner with are capacity constrained and have restricted access.

By partnering with smaller, specialist managers and by being amongst the largest three Limited Partners in the funds, the team can access substantial co-investment opportunities, most of which come with no fees and no carry.

They seek to add further value by acquiring companies in GP-led secondaries transactions, which also typically have lower fees than primary fund investments and are de-risked as the manager is already familiar with the assets and investors have more information to conduct their analysis.

Origination

The investment origination process varies depending on the type of opportunity under review, but there are common features and principles

Schroders' long-standing relationships with GPs gives them access to funds that are capacity constrained.

Implementing their exposure through co-investments and secondaries brings cost efficiencies and the ability to conduct better due diligence.

across the board. They are designed to ensure that the team remains open to diverse opportunities and maintains a high bar for investments being approved for portfolios.

Broad sourcing of deals: Ensuring a wide range of opportunities is considered.

Openness and interactions: Active communication amongst deal teams, sector teams and the Investment Committee.

Unanimous decision making: High standards for investment approval, requiring consensus.

Through funds and on a direct basis, the team focuses on Western Buyouts and Asian Growth investments.

The deal origination process is designed to source a diverse set of opportunities and maintains a high bar for investments being approved.

<i>Segment</i>	Target Allocation	Characteristics
<i>Western Buyout</i>	80%	<ul style="list-style-type: none"> • Small and Mid-sized companies in Europe and US that are partnering with their first set of institutional investors. • Typically bought from families and founders where pricing is less competitive. • Companies that are leaders in their segment but haven't yet reached their full potential.
Asian Growth	20%	<ul style="list-style-type: none"> • Providing growth capital to companies that are exposed to rising consumption in the region. • Target sectors include Tech-enabled consumption, healthcare and consumer businesses. • Geographically, they are focused on India and have some opportunistic investments in China

The fund invests across 3 types of PE transactions:

- Secondaries
- Primary Fund Deals
- Co-investment

Segment	Characteristics
Secondaries	<p>Secondary investments are sourced from investors in a private equity fund that are selling their assets.</p> <p>Schroders focuses on GP-led secondaries, which is where the GP sells one or more portfolio companies from an existing fund to a new investment vehicle, managed by the same GP. This structure offers a return of capital to LPs wishing to exit and the opportunity for others to continue investing with the GP in a selected subset of the portfolio companies. These transactions give the GP extra time and capital to add further value to their most successful portfolio companies.</p>
Primary Fund Deals	<p>The traditional approach to private equity fund investing involves LPs committing to invest in newly formed private equity funds. These funds are typically managed for 10 years and invest in a diversified selection of portfolio companies.</p> <p>Committing to a private equity fund during its fund-raising period is often a prerequisite for accessing co-investment opportunities with the private equity manager.</p>
Co-investments	<p>An equity co-investment is where an investor makes a minority investment in a company alongside a private equity manager who holds a controlling stake.</p> <p>These co-investments are cost-effective because private equity managers usually do not charge fees on them. However, co-investment opportunities are generally restricted to larger investors in funds who have strong relationships with the GP.</p>

Pre-qualification

The regional and sector deal teams maintain a database that tracks and ranks private equity managers. Each potential investment idea that from a highly ranked GP is covered by a deal team comprised of 2-3 people from the relevant regional or sector teams. They are responsible for sourcing investments, conducting due diligence, identifying interest from the portfolio management team, and obtaining deal approval from both the wider investment team and the IC. The team possess an excellent understanding of the manager landscape within private equity.

The deal team holds meetings with their regional/segment teams and IC members, separately. Approval from both is required at each stage of the two-stage due diligence process: pre-qualification and qualification.

For primary fund investments the analysis covers the GP's team, their deal origination capability, strategy and track record of adding operational value at the deal level. For co-investments and secondary investments, the GP analysis is also supplemented by thorough company analysis.

The deal team meets with each IC member individually to discuss the investment opportunity as part of a 4-eye review. Unanimous approval is required for an investment to proceed, demonstrating that the IC is not merely a ceremonial function but a key control in the process with robust steps to avoid groupthink.

Qualification

The qualification phase sees more intensive analysis to answer concerns raised in the first phase. It includes meetings with portfolio companies, reference calls, expert calls and banking presentations for company investments. ESG, tax, legal and regulatory checks are also conducted at this stage.

The deal team formalises their analysis into an Investment Recommendation document. Reviews of these documents for both co-investments and fund investments show detailed, well-structured notes with sophisticated analysis and clear recommendations.

The Investment Recommendations include an analysis of the company or fund and the relevant industries; the transaction background and existing exposure that Schrodgers has to the private equity manager's investments; manager analysis; a description of the completed due diligence; a return projection using the manager's model, as well as their own base case and downside case; discussion of the transaction structure and fees; and the risks/challenges.

A scorecard accompanies the analysis to quantify the conviction in the overall recommendation. This is a sensible approach that provides a reference point for debate and comparison with other opportunities.

The deal origination process is independently audited under an ISAE 3402 engagement. This was conducted most recently by EY in 2022, with a specific review of the application of the investment process as it relates to new investment opportunities and monitoring of ongoing investments. EY's audit included a review of the criteria applied to

There is a two-stage process of fundamental analysis with unanimous approval required from the investment committee at each stage.

The formal Investment Recommendation documents for co-investments and fund investments are detailed and well-structured notes, with sophisticated analysis and clear recommendations.

The investment process is subject to independent audit, giving confidence that it is being implemented consistently.

selecting an investment and the information produced through the origination and monitoring processes to test consistency with the manager’s stated approach. No deviations were found, confirming that the thorough and robust process outlined by the manager is being followed consistently.

Portfolio Construction

The fund aims to participate in all suitable deals being originated, ensuring broad exposure to the overall Schroders PE platform. It is expected to be highly diversified, with approximately 100 positions, each representing 1-4% of the fund at the time of initial commitment. While the goal is to maintain a stable number of positions, this can be challenging for an open-ended private asset fund where existing positions cannot easily be increased or reduced.

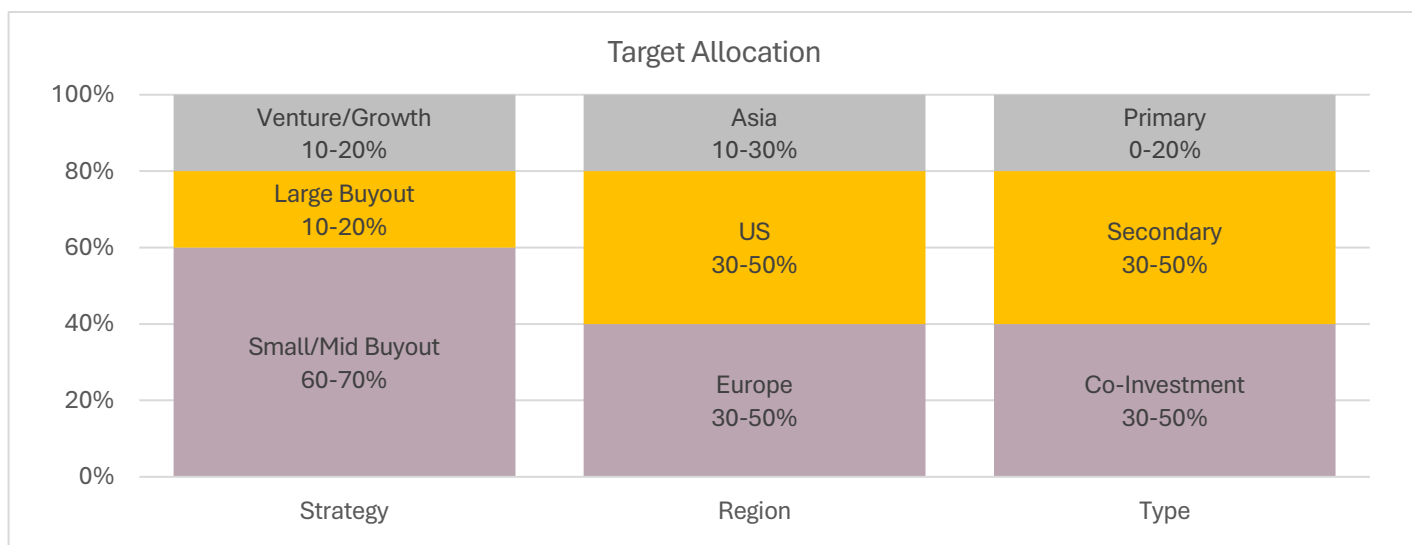
The target allocations are designed to ensure the fund is diversified and focused on US and European Small and Mid-market buyout deals, sourced through secondaries or co-investments. The specific allocation limits are:

- Max 10% of total assets in a single company at the time of investment
- Max. 25% of total net assets in funds or companies managed by a single GP.

The diversified investment approach gives broad exposure to the overall Schroders PE platform.

The fund’s investment targets are designed to ensure positioning is skewed towards small and mid-market buyouts in the US and Europe, that have been sourced through co-investments and secondaries.

Figure 7. Portfolio Target Allocation



ESG

Although this fund is classified as an SFDR Article 6 fund and does not have a specific sustainability scope, Environmental, Social, and Governance (ESG) factors are integrated into each stage of the due diligence process for both direct/co-investments and fund investments. ESG analysis is included in the deal teams' Investment Recommendations, both qualitatively and within the scorecards. This ensures that ESG considerations are systematically evaluated and factored into investment decisions.

The Portfolio

Current Positioning

The fund is currently invested in 95 positions, broadly spread across regions and deal types. The number of holdings has grown each year as new capital has been deployed, but this is expected to stabilise around the current level. This stabilisation will occur as maturing smaller investments being used to fund a narrower number of large positions. The investments are managed by 73 different private equity managers.

Historically, the fund has invested 80% of its capital into co-investment and secondaries. This allocation is expected to remain consistent as these types of investments are more cost efficient, quicker to deploy capital, and have shorter durations compared to primary fund investments.

There is no debt at the fund level, but the underlying portfolio companies are levered. The average capital structure consists of two-thirds equity and one-third debt, which is less levered than the typical private equity deal in the post GFC period that has two-thirds debt and one-third equity. This lower leverage means the strategy is less impacted by the higher borrowing costs and restrictive lending terms that has resulted in lower leverage across the wider sector.

The average age of the portfolio's investments is 2 years, which given the typical 3-5 year holding period of private equity funds suggests there could be a significant portfolio exits over the next few years with the potential for valuation uplifts.

The portfolio is currently skewed towards Europe as valuations have been more attractive than in the US. However, this view has shifted

Despite the absence of a sustainability scope, ESG analysis is integrated in the investment process.

The fund is currently invested in 95 positions with 73 GPs.

The fund is primarily invested through co-investment and secondaries transactions.

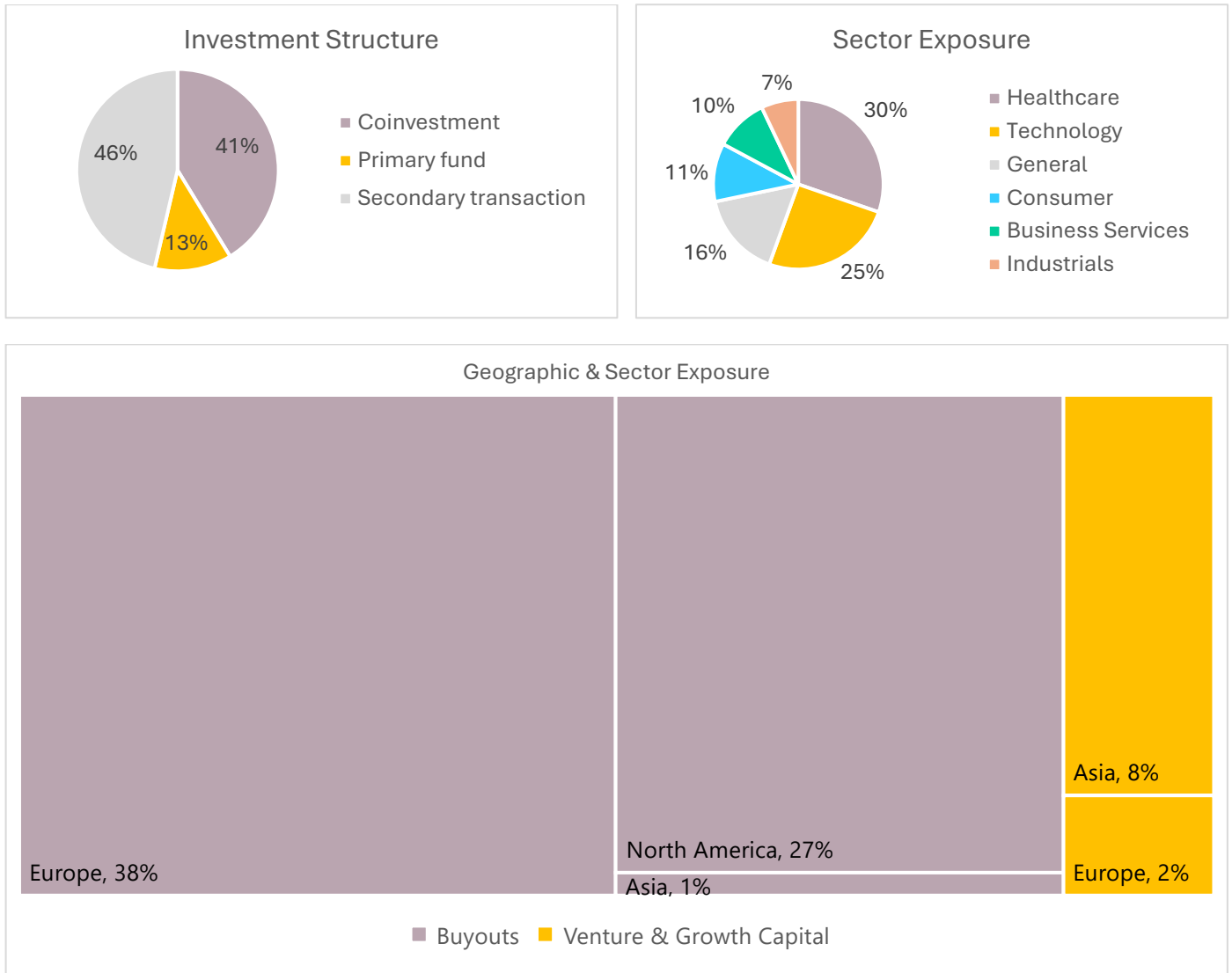
The average holding period of the portfolio companies is two years so there could be an uptick in exits over the coming years.

The fund is unlevered. Its portfolio companies are typically 1/3 geared, which is relatively low within the private equity sector.

recently, and the pipeline is now skewed to the US, demonstrating a dynamic approach to sourcing opportunities across geographies.

The portfolio companies' average revenue growth was 13% over the last twelve months to 30/06/2024, which should contribute to valuation growth over time.

Figure 8. Portfolio Positioning



Source: Schroders Capital, 30/09/2024

Performance

Return Target

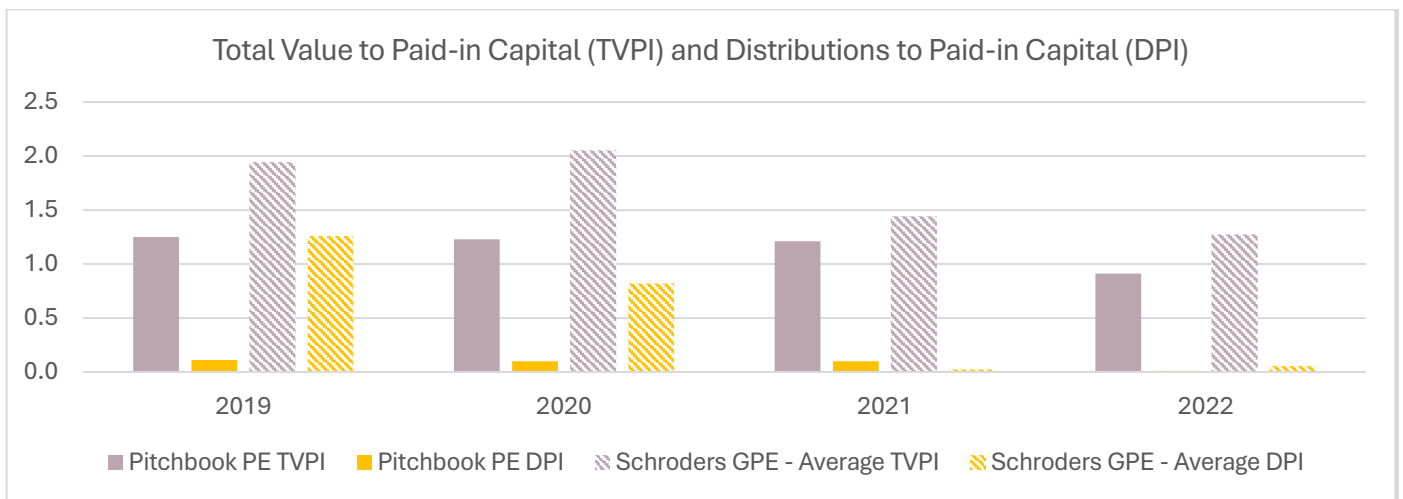
The fund targets a 12-15% net internal rate of return (IRR), which is realistic based on long-term historic returns of the asset class and the strategy employed. This target aligns with the performance expectations for similar private equity investments.

Historic Returns

The fund reached its fifth anniversary in September 2024 and has exceeded its target, delivering a 16.75% annualised total return since inception. The performance of the fund has been very similar to that of the wider Schrodgers' PE platform, reflecting consistency between their processes and allocations.

The fund's performance compares favourably with the wider private equity sector. Its total returns are broadly in-line with the IRR of the Pitchbook Private Equity benchmark (PBPE) despite the dilutive effects of the fund's cash balance. When examining the fund's Total Value to Paid-in (TVPI) metric on underlying investments, which removes the distortion of portfolio cash, it is evident that the fund has achieved higher valuations. Additionally, a larger portion of the value increase has been realised as distributions (DPI).

Figure 9. Total Value to Paid in Capital and Distributions to Paid in Capital – Fund and Sector



Source: Schrodgers, Pitchbook. 30/06/2024

The fund has demonstrated a correlation of 0.4 and a beta of 0.23 with the MSCI World Index. This modest correlation and low sensitivity to the listed equity market makes the fund a useful diversifier within a wider portfolio. Additionally, the fund's high risk-adjusted returns, with a Sharpe Ratio of 1.42x, and a low largest monthly loss are also attractive characteristics showing resilience.

The fund's returns have been excellent in the five years since its inception, delivering 16.75% annualised.

The fund's returns have exhibited low volatility, and low correlation and beta with the equity market.

Figure 10. Returns (Since Inception)

Return Analysis	SCSL GPE	Pitchbook Private Equity Buyout Index	MSCI World Net Total Return USD Index
Annualised Return (S.I.)	16.83%	17.38%	12.31%
Cumulative Return (S.I.)	109.36%	114.11%	73.55%
Largest Month Gain (S.I.)	19.5%	14.9%	12.8%
Largest Month Loss (S.I.)	-3.0%	-11.4%	-13.2%
% Positive Months (S.I.)	71.93%	92.98%	63.16%
% Negative Months (S.I.)	28.07%	7.02%	36.84%
Total Return (1 Year)	12.12%	10.87%	20.19%
Total Return (3 Years)	33.59%	30.16%	22.02%

Source: Schroders, Bloomberg, Pitchbook, 30/09/2019-30/06/2024, USD. S.I. is 'Since Inception'. This is the time period where returns data is available for both the fund and private equity buyout index.

Figure 11. Portfolio Risk Metrics (Since Inception)

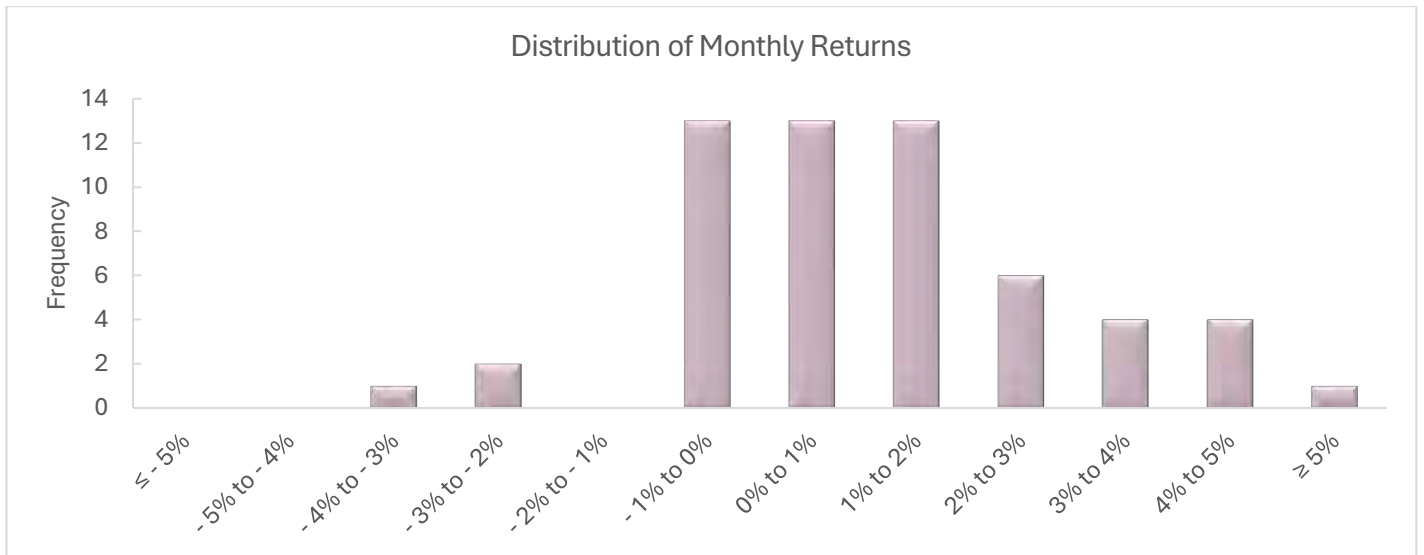
Risk Analysis:	SCSL GPE	Pitchbook Private Equity Buyout Index	MSCI World Net Total Return USD Index
Annualised Volatility	10.43%	14.24%	18.21%
Sharpe	1.42	1.08	0.56
Beta	-	0.29	0.23
Correlation	-	0.39	0.40

Source: Schroders, Bloomberg, Pitchbook, 30/09/2019-30/06/2024, USD. This is the time period where returns data is available for both the fund and private equity buyout index.

The fund has fully exited 9 positions since its inception, and these have generated a 2.7x TVPI. December 2020 was a particularly strong month for the strategy with two exits contributing towards the monthly return of +19.4%. The distribution of monthly returns more generally has been good with a 2-to-1 ratio of positive months to negative months.

The fund has sold 9 positions entirely that generated a 2.7x realised return.

Figure 12. Distribution of Monthly Returns

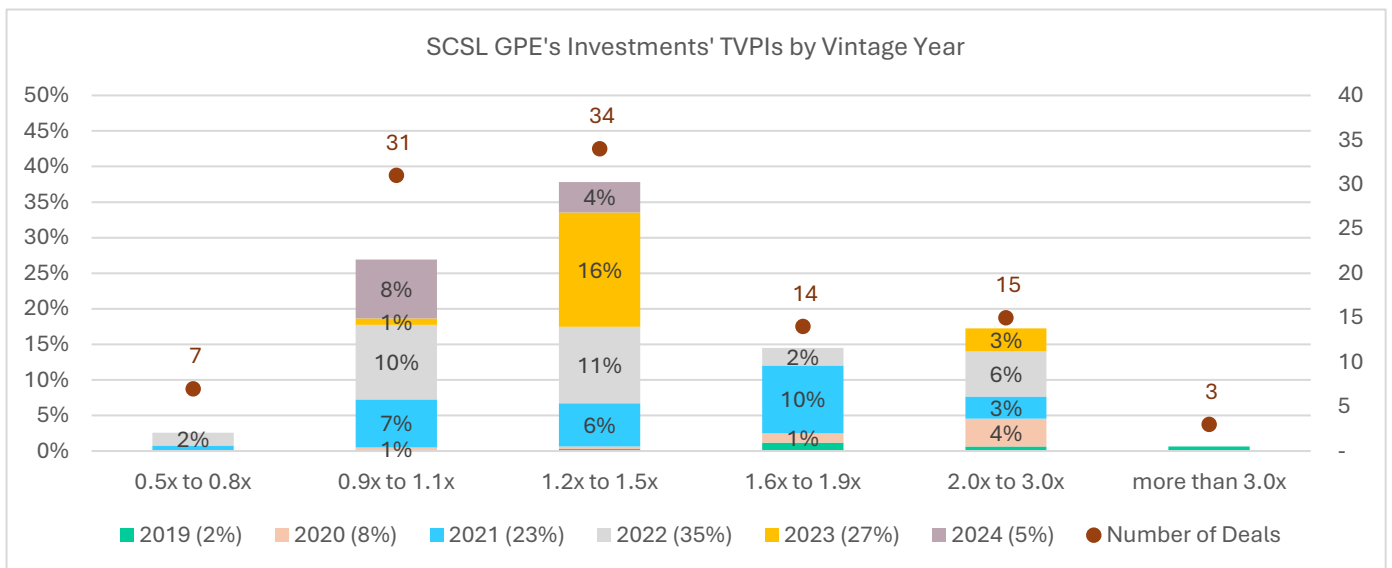


Source: Schroders, 30/06/2024

The TVPIs for the fund’s investments are broadly spread across the vintage years, indicating that the returns have been broad-based. 70% of the fund’s investments are still valued close to cost so there is the scope for valuation upside given they are underwriting deals to achieve a 2-3x TVPI.

Despite the strong returns, the fund still has many investments valued close to their initial cost.

Figure 13. Investments' TVPIs by Year of Investment



Source: Schroders, 30/09/2024

Schroders Capital has developed an impressive track record across its private equity strategies, achieving a 17% IRR from 2010 to 2022. The table below presents the average IRRs, TVPIs, and the range of between lowest and highest vintage broken down by region and strategy. This data shows that all the strategies upon which this fund is built have delivered attractive returns.

Figure 14. Performance of Schroders Capital Strategies

Strategy	IRR	TVPI	Lowest Vintage IRR	Highest Vintage IRR
Aggregate US buyout/turnaround	18%	1.6	10%	35%
Aggregate European buyout	16%	1.7	6%	33%
Aggregate Global Innovation	24%	2.4	4%	31%
Aggregate Asia	15%	1.7	9%	21%

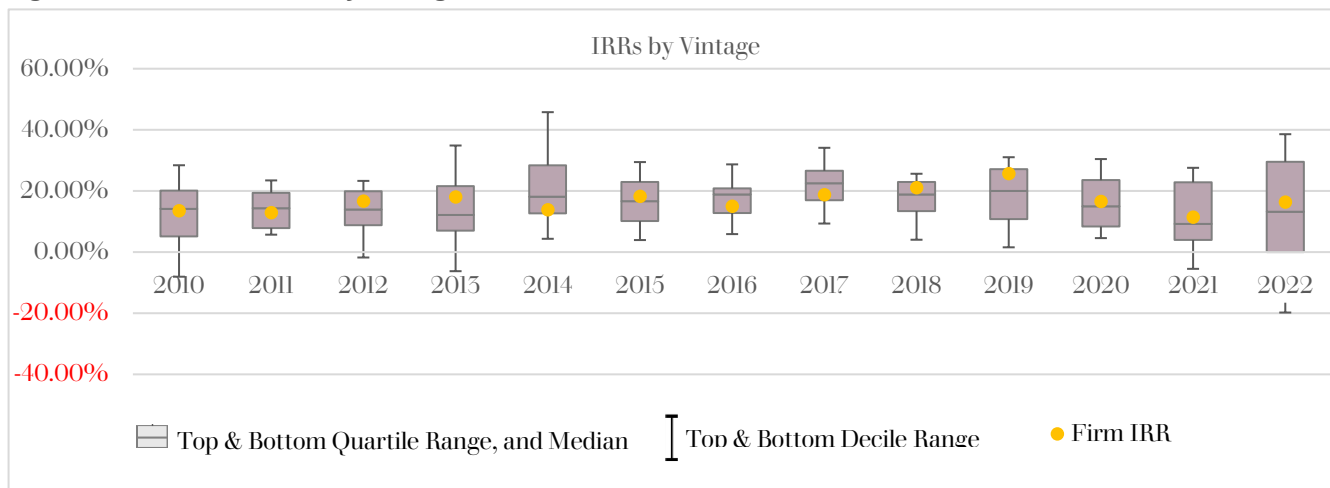
Source: Schroders, 01/01/2010-31/12/2022

The firm’s strong performance extends to the different investment structures that the fund uses for company exposure. From 2014 to 2023, they invested in 247 direct and co-investments and achieved an IRR of 19%. Of these deals, 81 full and partial exits were completed, with an average 2.8x realised value and 24% realised net IRR. Over the same period, the firm made 99 GP-led secondaries transactions, and these have achieved a 23% IRR net of the underlying managers’ fees.

The firm’s IRR across all strategies have outperformed the PBPE benchmark average during 8 of the 12 years to 2022. When viewed on a TVPI basis, the performance is even more impressive. The firm has met or exceeded the average of the Private Equity sector in 10 of 12 years for the US buyout strategy and 8 of 12 years for the European Buyout strategy. This performance profile implies that whilst the average hold period is longer, the total returns on each deal are higher.

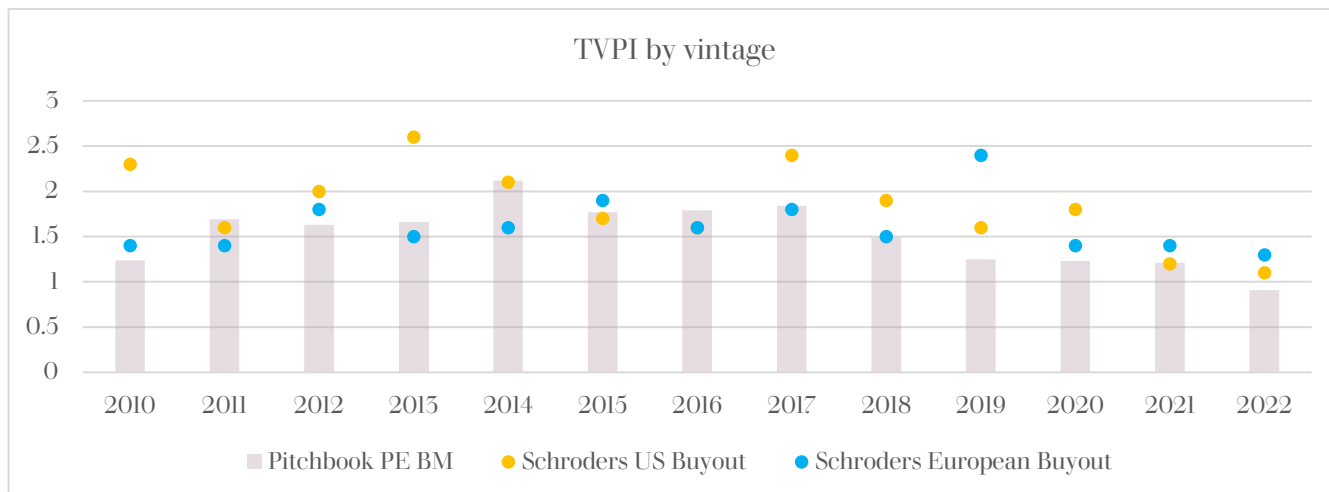
Schroders has delivered consistent, strong returns over the long-term on each of the strategies that this fund is built from.

Figure 15. Firm Level IRRs by Vintage



Source: Schroders, Pitchbook. 31/05/2024

Figure 16. Firm Level TVPI by Vintage



Source: Schrodgers, Pitchbook. 31/05/2024

Forecast Returns

We forecast 14.7% annualised returns over a 5-year period for the strategy, which is consistent with the fund’s return target.

Figure 17. 5-year Return Forecast

	Bull	Base	Bear
Annual EBITDA growth rate	17.00%	14.00%	10.00%
Exit EV/EBITDA Multiple adjustment	0.00%	-5.00%	-10.00%
Gross IRR	23.85%	17.51%	10.21%
Net IRR	19.95%	14.71%	8.01%

To estimate the future returns from the strategy, we make the following asset class assumptions and apply a 90% private equity portfolio and 10% cash allocation weights:

Figure 18. Return Forecast Assumptions

Sector	Bull Case Approach	Base Case Approach	Bear Case Approach
Private Equity Portfolio	EBITDA growth of 17% p.a. over 5 years, extrapolating the earnings growth delivered by the top 10 holdings over the last 12 months. No decline in overall EV/EBITDA valuation multiples.	EBITDA growth of 14% p.a. over 5 years. A reduction of 3 percentage points from the earnings growth of the last 12 months. A 5% decline in overall EV/EBITDA valuation multiples.	EBITDA growth of 10% p.a. over 5 years. A reduction of 7 percentage points from the earnings growth of the last 12 months. A 10% decline in overall EV/EBITDA valuation multiples.
Cash	USD 5y swap rate	USD 5y swap rate	USD 5y swap rate

Fund Operations

Dealing

The fund's dealing terms are consistent with the wider peer group of open-ended private asset funds: monthly subscriptions and quarterly redemptions of up to 5% of NAV. Redemption requests of more than 5% will be deferred until the next dealing day, unless there is sufficient liquidity, and deferred redemptions are dealt with on a pro-rata basis along with later redemption requests.

A redemption fee of up to 5%, payable to the fund, may be charged at the director's discretion. This is a sensible step to both discourage short-term allocations and to cover the trading spreads triggered by redeeming shareholders. The trading spread includes transaction costs and the impact that selling a position at discount has on the remaining portfolio holding. The fee amount will be disclosed to redeeming shareholders with sufficient time to cancel their order if they choose.

Special Dealing Procedure

If the fund cannot meet redemptions, it can initiate a 'Special Dealing Procedure'. This involves setting a 'special dealing date' within one year of policy announcement, with proceeds paid out within 180 days of the special dealing date. An additional deferral of up to 12-months is permitted if there are insufficient assets to pay the redemptions. All redemptions will be transacted at the 'secondary value dealing price', which is disclosed ahead of the dealing date and is the NAV minus an estimated or actual discount obtained through secondary sales. Shareholders can apply to acquire shares at the secondary value dealing price, which could reduce the amount of asset sales required to meet the redemptions in this scenario. Although this procedure has not been necessary to date, it provides a prudent measure for raising liquidity in an orderly fashion and allows long-term shareholders to enhance their returns by providing liquidity for those needing to exit.

Liquidity

The fund aims to maintain a cash balance between 10-20% to support its dealing terms, which is sufficient to cover 2-4 quarters of potential redemptions. By offering quarterly redemptions but taking monthly subscriptions there is the potential for a potential gap between redemptions and subscriptions to close.

The fund's dealing terms are for monthly subscriptions and quarterly redemptions.

There are a set of sensible measures to discourage redemptions including redemption penalties and a 'special dealing procedure'.

The fund can access a credit facility worth up to 30% of its NAV. This facility is not intended for meeting investor redemptions but for capital commitment calls in scenarios where liquidity is insufficient. This measure is designed to help the fund navigate periods of intense market stress when distributions may be lower. Currently, the fund has \$204.8m of uncalled commitments, which is 10% of NAV.

Given the typical 3-5 year hold period of companies by private equity managers, 20-33% of the fund's NAV should be available for re-investment each year, providing additional liquidity. However, a growing fund may receive lower distributions as a percentage of NAV as the allocation to older investments is smaller than recent investments. The fund's average hold period of 2 years suggests there should be a pick-up in portfolio sales in the coming years.

The fund's liquidity sources include its allocation to liquid assets, a credit facility and cash from portfolio company sales.

Within the PE sector, the fund is unusual for not charging a performance fee, resulting in overall fees that are low compared with its peers.

Fees

Private equity fund fees are amongst the highest across the asset management sector with the market standard being an annual 2% fee on committed capital or investment cost, and a 20% fee on profits above a hurdle. In comparison, the fund's low investment management fees and absence of performance fees make it relatively cheap.

Figure 19. Expected Fees

Fee Type	Fee Range
Schroders investment management fee	1.45% to 1.90%
Management Fees on The Underlying Holdings	0.20% to 0.80%
Performance Fees on The Underlying Holdings	0.00% to 0.60%
Costs and Expenses	0.55% to 0.65%
Potential Fees	2.20% to 3.95%

Source: Schroders, 30/06/2024

AUM and The Shareholder Base

The fund's AUM is \$2.04bn, which is substantial enough to be significant to the firm but small enough to effectively implement their strategy of investing in smaller funds with specialist private equity managers.

Since its inception, the fund has experienced entirely positive quarterly net inflows. As the fund has grown and matured, investor redemptions have trended upwards over time but have remained below the level of

inflows received each quarter. Only one investor has fully redeemed their investment.

The share register comprises intermediaries, pension funds and family offices. Notably, 20% of the shareholder register is based in Switzerland, the historic home of Adveq but the remainder is globally diversified. The largest 10 clients comprise 33% of the fund's AUM, with the largest single investor holding 6%. This distribution ensures that no single investor's redemptions would exceed the fund's target cash balance.

Valuations

The fund's assets are valued in accordance with the International Private Equity and Venture Capital (IPEV) guidelines. The specific approach to valuing each asset depends on the profile of the portfolio company and is managed by a team of 3 valuation specialists. Portfolio valuations are audited by three of the Big Four audit firms at various times throughout the year. Additionally, the wider set of firm processes, including valuations, subject to ISAE 3402 controls testing, providing audit and assurance on internal controls.

This fund is independently audited by PWC. Key audit matters include the procedures for the valuation of investments and their consistency with both the IPEV guidelines and the fund's approved valuation procedures and methodologies. The auditor tests the consistency of inputs when calculating valuations, the processes, documentation and controls. This gives a layer of comfort to the robustness of the valuation process and Schrodgers share the full audit report demonstrating a high degree of transparency.

Since its inception, the fund has experienced entirely net inflows each quarter.

Portfolio valuations are audited by the Big Four audit firms and Schrodgers has a team of valuation specialists following a process that is subject to ISAE 3402 controls testing.

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The Fund Review

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The Fund Review provides data and analysis on private asset investment funds. We are a team of experienced investors with a background in fund selection for institutional asset managers.

Our first-hand experience means we understand the key information that investors need to be confident making a fund investment. We present our insights, substantiated by robust analysis, to support investors as they further their own due diligence.

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