

# Key Capital – Private Equity Fund III

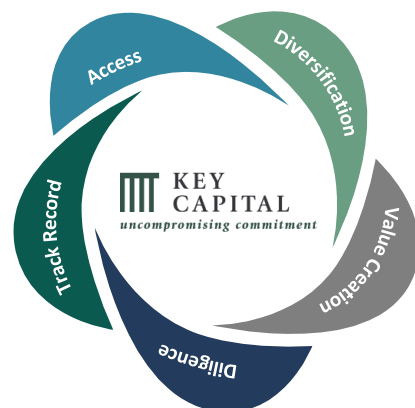
## Key Capital Investment Management (KCIM) Report

30 June 2023

### Executive Summary

This report is an overview of Key Capital – Private Equity Fund III (PE Fund III), a 2016 vintage fund which provides investors with exposure to a selection of private equity funds with the aim of delivering attractive returns, which outperform public equity market indices over medium to long term time horizons.

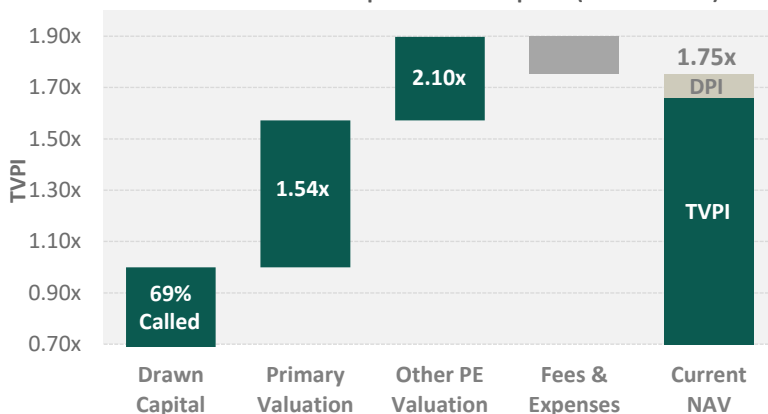
- TVPI<sup>1</sup> of 1.75x, DPI<sup>2</sup> of 0.09x and net IRR<sup>3</sup> of 14.4% at 30 June 2023
- PE Fund III TVPI increased by 1% during the quarter.
- PE Fund III is fully committed and 69% drawn at 30 June 2023, providing access to nine primary private equity funds, seven other private equity funds and one secondary private equity fund.
- The underlying managers have completed 51 realisations at an average exit multiple of 2.7x.
- PE Fund III distributed €2m in May 2023, bringing total distributions to €4.5m and DPI to 0.09x. A further €2m distribution in September 2023 increased DPI to 0.13x.



During Q2 2023, fears of recession continued to abate, while signs of cooling in inflation indicators suggested that interest rate hiking cycles in the US and Europe may be near their peak. However, geopolitical tensions and the elevated level of interest rates continue to weigh on sentiment for private equity markets. Despite this, PE Fund III managers continued to execute on value creation plans with a number of uplifts during the quarter including Company 1 (Primary 8), Company 2 (Primary 3) and Company 3 (Primary 9). Encouragingly, during the quarter, there were a number of exits including Company 4 (Primary 6), Company 5 (Primary 3) and Company 6 (Primary 4). KCIM maintains a positive long-term outlook given the current portfolio of PE Fund III companies and the expertise of the underlying fund managers to navigate the current market conditions.

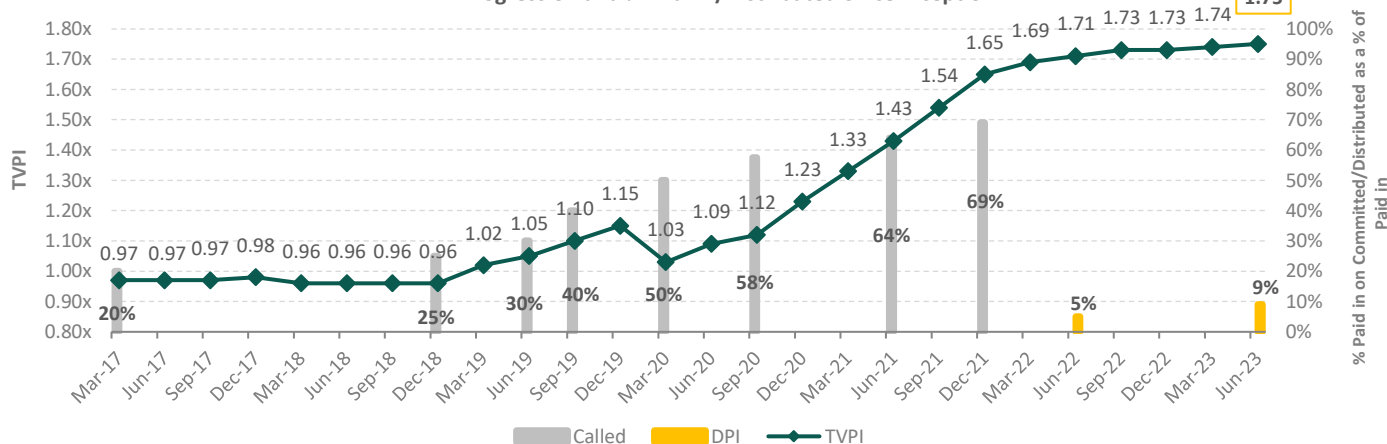
### Key Capital – Private Equity Fund III Performance

Total Value to Paid in Capital Since Inception (30 June 2023)



- PE Fund III TVPI is 1.75x at 30 June 2023, which represents a 1% increase over the quarter.
- At 30 June 2023, the TVPI of the underlying primary investments is 1.54x, with a net IRR of 15.6%.
- The other private equity and secondary investments have a combined TVPI of 2.10x and a net IRR of 25.9%

TVPI Progression and % Drawn/Distributed Since Inception



## Capital Commitments

- PE Fund III is 103% committed and 69% of investor capital has been called.
- Commitments made to nine primary private equity funds - 83% of total fund size.
- Supplemented by investments in seven other private equity funds and one secondary private equity fund – 20% of total fund size.

| 30 June 2023                                                             | € Committed | % Committed |
|--------------------------------------------------------------------------|-------------|-------------|
| <b>Fund Size</b>                                                         | €70.0m      | 100%        |
| <b>Investor Drawdowns</b>                                                | €48.3m      | 69%         |
| <b>Undrawn Investor Commitment</b>                                       | €21.7m      | 31%         |
| <b>Committed Capital - Primary Investments</b>                           | €57.8m      | 83%         |
| <b>Committed Capital – Other Private Equity and Secondary Strategies</b> | €14.6m      | 20%         |
| <b>Total Committed Capital</b>                                           | €72.4m      | 103%        |

## Primary Investments

| 30 June 2023 <sup>4</sup> | Vintage | Committed      | % Called   | TVPI         | IRR          | DPI          |
|---------------------------|---------|----------------|------------|--------------|--------------|--------------|
| Primary 1                 | 2016    | €8.0m          | 100%       | 1.53x        | 11.2%        | 0.26x        |
| Primary 2                 | 2016    | €3.0m          | 91%        | 1.98x        | 18.0%        | 0.58x        |
| Primary 3                 | 2017    | €5.0m          | 98%        | 1.83x        | 23.8%        | 0.33x        |
| Primary 4                 | 2017    | €5.0m          | 88%        | 1.47x        | 20.4%        | 0.99x        |
| Primary 5                 | 2018    | €5.8m (\$6.5m) | 89%        | 1.49x        | 24.4%        | 0.40x        |
| Primary 6                 | 2018    | €10.0m         | 84%        | 1.60x        | 20.5%        | 0.62x        |
| Primary 7                 | 2018    | €8.0m          | 88%        | 1.25x        | 10.9%        | 0.11x        |
| Primary 8                 | 2018    | €10.0m         | 80%        | 1.50x        | 20.4%        | 0.11x        |
| Primary 9                 | 2018    | €3.0m          | 83%        | 1.51x        | 22.4%        | 0.31x        |
| <b>Total / Average</b>    |         | <b>€57.8m</b>  | <b>88%</b> | <b>1.54x</b> | <b>15.6%</b> | <b>0.38x</b> |

At 30 June 2023, the primary managers have a combined TVPI of 1.54x, an increase of 1% over the quarter. The primary managers have called 88% of capital. The underlying managers continue to focus on actively implementing value creation plans, realising investments and returning capital to investors.

Encouragingly, Primary 8, Primary 3 and Primary 4 saw uplifts of 3%-4% on a TVPI basis during the quarter. These uplifts were driven by valuations during the quarter for portfolio companies Company 1 (Primary 8), Company 2 (Primary 3) and Company 3 (Primary 9).

At 30 June 2023, the DPI of the primary managers is 0.38x, an increase of 27% over the quarter. Realisations during the quarter include: Company 4 (Primary 6) at a 6.7x gross MOIC<sup>5</sup>, Company 5 (Primary 3) at a 4.8x gross MOIC and Company 6 (Primary 4) at a 4.2x gross MOIC. There were a number of notable realisation events post Q2 2023, including the sale of Company 7 (Primary 6) at a 2.7x gross MOIC, Company 8 (Primary 6) at a 4.9x gross MOIC and Company 9 (Primary 1) at a 2.4x gross MOIC.

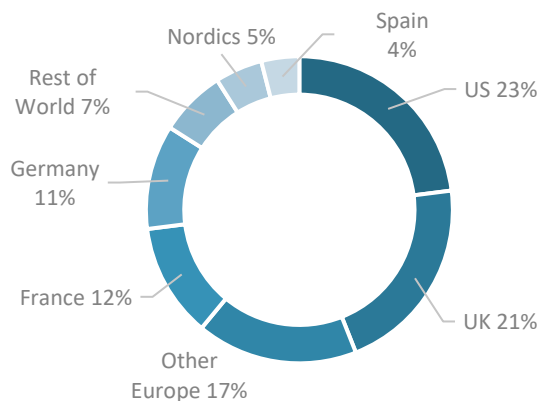
## Other Private Equity and Secondary Investments

| 30 June 2023            | Vintage | Type      | Committed      | % Called   | TVPI         | IRR          | DPI          |
|-------------------------|---------|-----------|----------------|------------|--------------|--------------|--------------|
| Secondary 1             | 2014    | Secondary | €2.7m          | 92%        | 2.04x        | 35.4%        | 1.47x        |
| Other PE 1 <sup>6</sup> | 2016    | Other PE  | €1.7m (\$2m)   | 73%        | 1.78x        | 34.2%        | 1.28x        |
| Venture 1               | 2016    | Venture   | €2.4m (£2m)    | 105%       | 2.55x        | 21.7%        | 0.20x        |
| Venture 2               | 2016    | Venture   | €0.7m (£0.6m)  | 108%       | 2.07x        | 21.1%        | 0.91x        |
| Other PE 2              | 2017    | Other PE  | €2.1m (\$2.5m) | 90%        | 1.97x        | 28.8%        | 0.24x        |
| Other PE 3              | 2017    | Other PE  | €2.5m (\$3m)   | 100%       | 1.97x        | 22.4%        | 0.38x        |
| Venture 3               | 2017    | Venture   | €0.9m (\$1m)   | 100%       | 2.41x        | 28.2%        | 0.14x        |
| Venture 4               | 2018    | Venture   | €1.6m (\$2m)   | 123%       | 2.00x        | 25.5%        | 0.64x        |
| <b>Total / Average</b>  |         |           | <b>€14.6m</b>  | <b>98%</b> | <b>2.10x</b> | <b>25.9%</b> | <b>0.65x</b> |

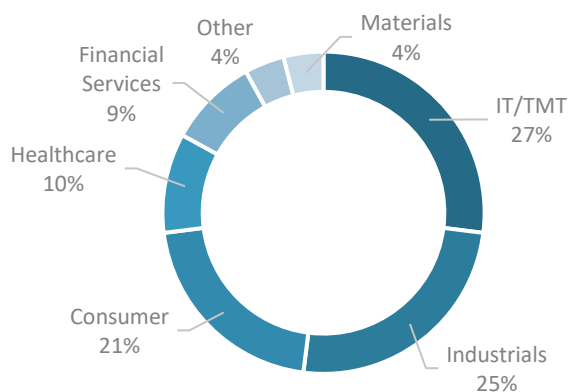
At 30 June 2023, the PE Fund III other private equity and secondary investments have a TVPI of 2.10x, compared to 2.13x at 31 March 2023. Encouragingly, Other PE 2 and Other PE 3 saw increases of 2% in TVPI which was primarily driven by valuation uplifts in underlying assets Company 10 (Other PE 2) and Company 11 (Other PE 3).

At 30 June 2023, the cumulative DPI of the other private equity and secondary investments is 0.65x, an increase of 3% over the quarter. Venture 4 realised Company 12 during the quarter at 1.5x gross MOIC. The net IRR of other private equity and secondary investments is 25.9%

**Underlying Investment Geographic Exposure<sup>7</sup>**



**Underlying Investment Sector Exposure**



As displayed above, the underlying PE Fund III companies are well diversified across geography and sector. The primary geographic exposure is focused in Europe/UK at 70%, with the US and the Rest of World regions accounting for the remaining 23% and 7% respectively. PE Fund III sector exposure remains diversified with IT/TMT being the largest sector exposure at 27%. Industrials and Consumer account for 25% and 21% of sector exposure respectively, while the remaining 4 sectors account for 27% of the exposure.

**Investment Diversification - Geographic Returns Analysis**

| All Investments |               |                |             | Realised      |              |               |             |
|-----------------|---------------|----------------|-------------|---------------|--------------|---------------|-------------|
|                 | Cost          | Total Value    | MOIC        |               | Cost         | Total Value   | MOIC        |
| US              | €12.8m        | €25.5m         | 2.0x        | US            | €0.9 m       | €2.1 m        | 2.3x        |
| UK              | €11.4m        | €25.4m         | 2.2x        | UK            | €1.8 m       | €7.5 m        | 4.1x        |
| Germany         | €9.4m         | €17.3m         | 1.8x        | Germany       | €2.1 m       | €6.6 m        | 3.1x        |
| Other Europe    | €8.9m         | €17.1m         | 1.9x        | Other Europe  | €1.0 m       | €1.6 m        | 1.6x        |
| France          | €7.5m         | €13.2m         | 1.8x        | France        | €1.0 m       | €2.3 m        | 2.3x        |
| Rest of World   | €4.3m         | €8.6m          | 2.0x        | Rest of World | €0.6 m       | €1.1 m        | 1.8x        |
| Nordics         | €3.1m         | €5.9m          | 1.9x        | Nordics       | €0.4 m       | €1.2 m        | 2.8x        |
| Spain           | €2.4m         | €3.5m          | 1.5x        | Spain         | €0.3 m       | -             | -           |
| <b>Total</b>    | <b>€59.7m</b> | <b>€116.5m</b> | <b>2.0x</b> | <b>Total</b>  | <b>€8.2m</b> | <b>€22.3m</b> | <b>2.7x</b> |

The underlying PE Fund III primary companies have a weighted average gross MOIC of 2.0x. Performance of the primary companies has been particularly strong in the UK, US and Rest of World regions, all being marked at or above 2.0x. There have been notably strong exits in the UK and Germany.

**Investment Diversification - Sector Returns Analysis**

| All Investments    |               |                |             | Realised           |              |               |             |
|--------------------|---------------|----------------|-------------|--------------------|--------------|---------------|-------------|
|                    | Cost          | Total Value    | MOIC        |                    | Cost         | Total Value   | MOIC        |
| Industrials        | €15.5m        | €32.2m         | 2.1x        | Industrials        | €2.6 m       | €8.2 m        | 3.2x        |
| Consumer           | €13.9m        | €22.8m         | 1.6x        | Consumer           | €1.9 m       | €3.8 m        | 2.0x        |
| IT/TMT             | €13.3m        | €30.1m         | 2.3x        | IT/TMT             | €1.6 m       | €4.1 m        | 2.5x        |
| Healthcare         | €6.9m         | €10.1m         | 1.5x        | Healthcare         | €0.2 m       | €0.5 m        | 2.4x        |
| Financial Services | €5.3m         | €9.5m          | 1.8x        | Financial Services | €0.2 m       | €0.9 m        | 4.3x        |
| Other              | €2.9m         | €7.8m          | 2.7x        | Other              | €1.2 m       | €3.6 m        | 3.0x        |
| Materials          | €1.9m         | €3.9m          | 2.1x        | Materials          | €0.5 m       | €1.1 m        | 2.4x        |
| <b>Total</b>       | <b>€59.7m</b> | <b>€116.5m</b> | <b>2.0x</b> | <b>Total</b>       | <b>€8.2m</b> | <b>€22.3m</b> | <b>2.7x</b> |

The underlying company performance in PE Fund III has been driven by investments in the IT/TMT and Industrials sectors marked at 2.3x and 2.1x gross MOIC respectively. There have been exits from investments in all seven sectors, with notably strong exits from Financial Services, Industrials, and Other Industries.

As the underlying companies in PE Fund III continue to mature and more realisations occur, the performance of realised investments on a sector basis will become more diverse.

## Largest Remaining Companies

| Company            | Fund      | Geography     | Sector      | Look-Through Weight <sup>8</sup> |
|--------------------|-----------|---------------|-------------|----------------------------------|
| Largest Company 1  | Venture 1 | UK            | IT/TMT      | 2.4%                             |
| Largest Company 2  | Venture 1 | UK            | IT/TMT      | 2.1%                             |
| Largest Company 3  | Venture 1 | Other Europe  | IT/TMT      | 1.9%                             |
| Largest Company 4  | Primary 1 | Rest of World | Industrials | 1.9%                             |
| Largest Company 5  | Primary 8 | France        | Industrials | 1.6%                             |
| Largest Company 6  | Primary 8 | Germany       | Industrials | 1.5%                             |
| Largest Company 7  | Primary 1 | US            | IT/TMT      | 1.4%                             |
| Largest Company 8  | Primary 1 | Other Europe  | Healthcare  | 1.4%                             |
| Largest Company 9  | Primary 8 | France        | Consumer    | 1.4%                             |
| Largest Company 10 | Primary 6 | Other Europe  | Consumer    | 1.3%                             |
| <b>Total</b>       |           |               |             | <b>16.9%</b>                     |

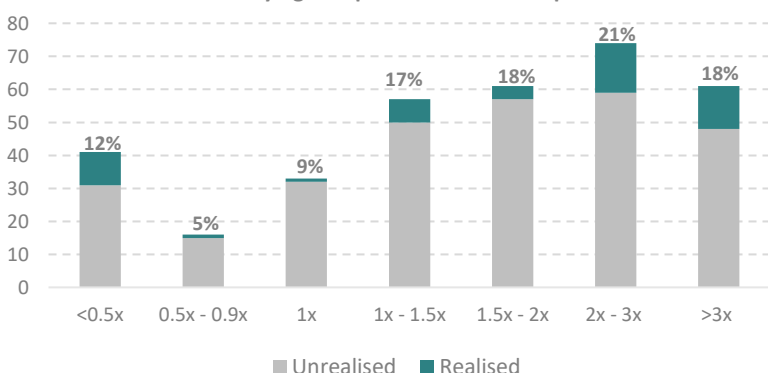
The 10 largest remaining companies in PE Fund III represent 16.9% of the primary investment portfolio on a look-through basis. This illustrates the diversification of PE Fund III with no portfolio company accounting for greater than 2.4% of the current market value.

As the underlying managers in PE Fund III continue to execute on value creation plans and the portfolio develops, this exposure will continue to evolve.

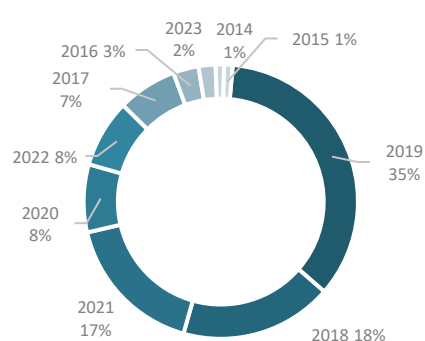
## Underlying Companies

- The underlying PE Fund III managers have invested in a total of 343 companies.
- 83% of the investments in the portfolio are currently held, or have been realised at or above cost.
- The average holding period for the underlying companies is 3.4 years.
- The underlying managers in PE Fund III have been investing since 2014, providing vintage diversification, with the largest single exposure to companies purchased in 2019.

Underlying Companies - Gross Multiples



Vintage Diversification



## Private Equity – Q2 2023 Market Review<sup>9</sup>

Global private equity buyout funds raised \$189bn in H1 2023 representing a 23% increase on the \$154bn raised in H1 2022. This reflects an improvement in sentiment amongst investors that macroeconomic conditions could improve over the coming quarters.

Global private equity buyout deal volume decreased further in Q2 2023 with 1,668 deals completed for an aggregate value of \$37bn. By comparison, there were 2,107 deals completed for an aggregate value of \$85bn in Q2 2022. This represents a decrease of 21% and 56% in deal volume and value respectively, year on year. This decrease was driven by the uncertain market environment and continued challenging leveraged loan market conditions. The underlying fund managers in the Key Capital – Private Equity Program continued to deploy capital but with an increased level of caution reflected in their underwriting.

Global private equity buyout exit activity was mixed during Q2 2023. Private equity firms announcing 444 exits in Q2 2023 at a total exit value of \$109bn. In Q2 2022, the same number of exits completed at an exit value of \$138bn, Q2 2023 representing a decline in value of 21%. There were a total of 7 IPO's in Q2 2023. By comparison, in Q2 2022 there were a total of 14 IPO's completed during this period, the decrease being primarily due to the ongoing volatility and lack of confidence in public markets.

## PE Fund III Recent Realisations

| Company                   | Fund        | Exit Date | PE Fund III Cost | MOIC        |
|---------------------------|-------------|-----------|------------------|-------------|
| Realised Company 1        | Primary 6   | Jan-23    | 245,849          | 2.8x        |
| Realised Company 2        | Venture 1   | Jan-23    | 89,828           | 1.4x        |
| Realised Company 3        | Secondary 1 | Feb-23    | 128,296          | 1.2x        |
| Realised Company 4        | Venture 4   | Feb-23    | 122,084          | 0.1x        |
| Realised Company 5        | Primary 3   | Mar-23    | 201,220          | 2.5x        |
| Realised Company 6        | Primary 6   | Apr-23    | 502,792          | 6.7x        |
| Realised Company 7        | Primary 3   | Apr-23    | 101,829          | 4.8x        |
| Realised Company 8        | Venture 4   | May-23    | 83,000           | 1.5x        |
| Realised Company 9        | Primary 4   | May-23    | 445,556          | 4.2x        |
| Realised Company 10       | Primary 1   | Jun-23    | 328,908          | -           |
| <b>Total/Average (51)</b> |             |           | <b>8,205,409</b> | <b>2.7x</b> |

At 30 June, the PE Fund III underlying managers have announced 51 realisations at an average exit multiple of 2.7x.

- The average holding period for realised investments is 3.3 years.

## Additional Activity Post Reporting Period

PE Fund III distributed €2m in September 2023 increasing the DPI to 0.13x.

## Footnotes

- Total Value to Paid-in Capital (TVPI): The ratio of the current value of remaining investments within a fund, plus the total value of all distributions to date, relative to the total amount of capital paid into the fund to date.*
- Distributed to Paid-in Capital (DPI).*
- Internal Rate of Return (IRR).*
- 93% of NAV is valued using Jun-23 valuations.*
- Multiple on Invested Cost (MOIC)*
- Other PE 1 is a diversified Fund of Funds investment and is not included in any underlying company level analysis shown on page 3 & 4.*
- Other Europe includes: Luxembourg, Italy, Switzerland, Netherlands, Greece, Malta, Belgium, Portugal, Ireland, Poland, Cyprus. Rest of World includes: Australia, Bermuda, Brazil, Canada, China, Colombia, Hong Kong, India, Indonesia, Israel, Japan, Mexico, Peru, Singapore, South Africa, Taiwan, Turkey, Vietnam.*
- Look-through weight estimation based on 30 June 2023 valuations.*
- Data source is Preqin Private Equity Database and underlying manager reports.*

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