AGA Day

Wednesday, 06 June 2018

Susie Farnon

Director and Audit Committee Chair, AGA

Good morning and welcome to the APAX Global Alpha's third Investor Day. Your Chairman of APAX Global Alpha apologises for not being able to be here today and so you you've got me. I joined the Board shortly after the IPO and I am Chair of the Audit Committee. And my brief background, I was a Banking and Finance Partner for KPMG and over the last 15 years I have been a non-exec Director on listed funds and some AIM companies.

So today Ralf and Nico they have made themselves available to meet some investors on a one to one basis after the Presentations and if there is anyone else that would like that opportunity if they could speak to Sarah during the coffee break I am sure we could arrange something. I think Sarah is at the back of the room, she is just waving. So if you want to speak to Sarah I am sure we can sort something out.

Today if you look at the plan of the day we are going to concentrate on the investment environment and outlook and update you on the performance and the current investment approach for the private equity side and the derived investments. Ralf and Nico are going to cover the detail and I would just like to say really one of our main objectives at IPO was to pay the dividend of 5% of NAV every year and that is still the Board's intention going forward.

If we move onto the AGM results. Obviously I think you all know the discontinuation vote was heavily defeated which was really a pleasing result for Apax to continue its strategy of the fund and this vote obviously will be taken again in 3 years time and we are taking steps to make it a continuation vote rather than a discontinuation vote because it gets rather confusing I think for everybody and that a yes vote is to continue, would be a lot easier.

In addition at the AGM we did have a few negative votes due to, we didn't include a policy to approve a remuneration report. Well going forward we will just make sure we do that because it is something that we are quite happy to do.

On the actual Board just as an update, some of you will know that Sarah Evans had to retire early this year due to ill health and we are pleased to announce, we sent out an RNS, that Mike Baine is going to join the Board in about three weeks time. Mike Baine is currently Head of Ernst & Young in

Guernsey and he has a lot of experience in the Audit and the Advisory of Private Equity and so we think he will be a strong addition to the Board. So hopefully that will be in about three weeks' time.

And going on to the lock-up release. Every year a number of shares are released from the lock-up and in the past through the brokers, the Company have made a mechanism available where previously locked up shares could be managed easily and organised through a book-build. And so last year's lock-up released enough shares for the free-float to go over 50% and obviously that allowed us to join the FTSE all share index. The take-up actually has been quite low and so we don't actually intend to have a tender process this year because we think it can be managed just through the market quite easily.

So unless you have got any questions for me at this point, I think I will hand over to Nico to go into the detail. Thank you very much.

Nico Hansen

CIO Apax Partners

Good morning everybody my name is Nico Hansen, I am the Chief Investment Officer of Apax Partners, which as you know is the investment advisor of Apax Global Alpha. I am with Apax since over 18 years and I am the CIO since over 8 now. And before joining Apax I was with McKinsey for a few years as a Strategy Consultant and before that I did a PhD in Economics. So unofficially I guess I am also the Chief Economist of Apax.

Let me turn to the investment environment and outlook as we currently see it at Apax. And I am sure you are also aware of the market backdrop that you are seeing. Many, if not all of the public markets globally in equities are close to all time highs. They have run up over the past 5 years so we are in an extended rally around the globe. Now as you can see at the far right here of these charts you can actually see some of the instances that markets have corrected a little bit over the past 3-6 months. And you can see that reflected also to some extent in the market multiples that we are observing. So if you look at this chart you can see that the bars depict the average forward looking PE multiple for the year end 2016/2017 and as of March 2018 and then the red line is a 5 year average of those PE multiples across these markets. And unlike the last time when all of these bars generally tended to be higher than the red line, we can see now that actually in some markets the red line, the 5 year average is above the more recent bar lines. And that is obviously from the buy side perspective a bit of a relief. You can see that the US is actually in terms of valuations, back to their 5 year averages. And Europe, Israel are significantly or somewhat below these 5 year averages.

Now in the US the effect is mostly because of tax reform which has influenced the earnings after tax quite significantly upwards. In Europe I think it is just a long-term valuation situation that we have been observing for a while that the European markets are generally 2 to 3 turns more cheap than the US.

The emerging markets are somewhat different. You see that across Brazil, India and China that actually current multiples are generally above long-term averages. And these markets aren't cheap but they obviously generally bring a lot more growth than the western markets.

So from a valuation perspective, this chart looks more investable than it has looked a year ago or two years ago for that matter.

Now talking about the private side. And as you know while we invest in public equity as AGA we are mostly focused around private equity and so private equity valuations matter somewhat more than the public equity valuations. On the private side you can actually see that that moderation of valuation hasn't quite happened yet. On the far right, the March 2018 numbers the average EBITDA multiples of buy-outs in Europe and in the US have been consistently above 10, between 10 and 11 over the past few years. That compares well or not so well to the valuations in 2007 and you can see 2016 they were equally high. Now these high levels are somewhat moderated by the interest rate that we are paying in buy-outs for the debt that we are using to finance these acquisitions because they are considerably lower than they were in the mid-2000s. So the debt burden, the interest burden on private equity buy-outs is significantly lower than it used to be. But from a valuation perspective we are quite close to where we were in the mid-2000s which obviously is a warning sign.

In terms of different markets and the relative price worthiness, I tend to use this chart here which depicts on the vertical axis the next 12 months P/E ratios that you saw previously but on the horizontal axis incorporates the view on the macro economic development and environment in these different countries by depicting the forecast growth rates for 2018. And so in a way the further right and the further to the bottom a country is, the cheaper is the unit of gross that you are buying from a macro perspective.

Leave aside China now for a second because I think both the growth rates and the NTM P/E ratios are somewhat obscured, and look at the other countries, you can see that actually a pocket of value for sure is Israel and I have been touting that horn for a while and we have made actually quite a few investments in Israel over the past 18 months or so.

Another extreme is India, where arguably the multiples are highest right now, higher even than in the US but also the growth rate of the economy is extremely high and obviously you find it reflected it company growth rate as well.

If you look at the other extreme, which notably for the first time is Italy from a growth rate perspective, you see very low growth rate in Italy, obviously home-made and you also see that reflected somewhat in the valuation levels.

Now looking at it from a sector perspective, there are also distinct differences between the different sectors and their valuations and I am just picking out the sectors here that Apax historically has focused on quite a bit and the bars reflect the deviation of the sector multiples at the end of 2016/2017 and March 2018 relative to the 5 year averages. And you can see that some sectors are clearly valued extremely dearly like software where as others like telecommunications and healthcare are relatively cheap. And again we use that to our benefit like we use the geographic dimension to pick the sectors at each point in time that are particularly interesting from a valuation perspective and you find it reflected here in this donut chart on the right-hand side which depicts the Apax IX investment split for the different sectors that we are looking at. And you will see that healthcare which is arguably one of the cheaper sectors right now and services and also Tech and Telecom are overweight. Consumer, the difficult sector somehow because of Amazon and the likes is underweight. We would see that continuing for the foreseeable future as well.

In terms of going into a little more detail on the geographies and discussing the investability so to speak of the different countries and our themes that we are observing here, let me switch to page 12. The environment in the US from a macro perspective is obviously strong and it is likely to get stronger because of all the fiscal stimulus that has been put into the economy. That is going to strengthen the economy for the next couple of years. Looking beyond I am not so sure it is a smart policy, but let's just focus on the foreseeable future.

Pricing is high, but actually is a little lower than it used to be a year ago and the transaction velocity in the US is quite high. So I would call the US a very investable market right now. And on the right-hand side you can see we have made quite a few investments there over the last 18 months or so both in the private equity as well as in the derived investments field.

In Europe also macros generally looking very good. There are a few exceptions here but if you look at central Europe, Scandinavia, France, the Iberian Peninsula are all doing very well. And the one outlier continues to be Italy as I mentioned for I guess home-made reasons.

We have a slightly concerned view on the UK because of Brexit which creates a lot of uncertainty. But I must admit to date you know we don't see that really reflected in the numbers to a huge extent, but the outlook clearly is overshadowed by a lot of uncertainty regarding Brexit and I will touch on this in a little more detail in a second.

Amongst the emerging markets we view that India and Israel are very investable right now. India because of macro growth and you know hoping to find a select not so highly valued opportunities and Israel just because it is cheap and the macro situation is actually very strong.

More question marks behind China and Brazil. China macros actually doing quite well, but the debt burden in the economy is still rising and so at some stage that will lead to a reckoning. We are picking one particular segment in China here selectively which is digital online where we see a lot of opportunities and where the multiples despite higher growth rates are generally lower than in the West. And so you find that reflected in some of the investments we made with Apax Digital, for example the aesthetic surgery portal - SoYoung but also in some of the investments we made from derived investment pool in Apax Global Alpha like VIP Shop here.

So in this generally quite investable world, where do we see the risks? We don't see the risks really on the macro side or on the kind of economic side if watched more narrowly. But we see the risks in more man-made dimensions. The first dimension is the one that has been all over the press and in everybody's ears for a while now which is a trade war scenario with Trump kind of altering the US attitude towards trade imbalances quite significantly. That may obviously lead to issues between the US and China in particular and also for Europe to get involved so to speak as collateral damage here.

Now luckily as Apax we have limited direct exposure to this stuff. We don't have any aluminium producers or steel producers in our portfolio and we also don't do auto which could be the next sector heavily impacted by this. But there are clearly indirect risks that also some of our portfolio companies would be exposed to if a trade war really emerged as the outcome of these kind of negotiation preparations may be.

Second dimension of risk are geo-political conflicts I think. Let's see what is going to be the development there in North Korea or Korea that clearly looks quite benign right now. But if I was a betting man I think the risks that we have a war of conflict in the Middle East around Iran in the next 12-18 months is quite high. I would probably rate it above 50% but it is just a personal view and obviously could spill over into the markets by influencing the oil prices or by other indirect effects.

Third risk, inflation. I think inflation in the US is almost a foregone conclusion over the next 2-3 years. That is actually from an equities perspective general, not the worst development I would say, private equity, public equities, I think that is the asset class to be in if you have inflation. I think in Europe the jury is out whether we see inflation returning, I'm kind of the opinion that we will see actually more quantitative easing here for the next foreseeable future which could mean that the inflation gap between the US and Europe is widening which could have an effect on FX as well because my hunch is that that will be tackled with interest rates and I will touch on this later. So I would generally not be surprised if the dollar appreciates as well versus the Euro.

Fourth risk, Brexit obviously, quite a narrow risk here in particularly I think for the UK with some spill-over into Europe maybe. On that one I think is around how does this Brexit thing happen and what political route the UK will take in terms of its future relationship to Europe. Kind of Customs Union, not Customs Union, who knows. I think it is all quite unclear. We will obviously adapt to this flexibly. I think it is sufficient to say that actually the exposure of the Apax portfolios and the AGA portfolios to the UK is very limited and until some of the uncertainty around which paths the UK will go down is resolved, I don't expect that to change quickly. I think we need a resolution here before going back into the UK heavily investing.

Fifth risk, FX and we have seen that actually quite a bit over the past you know three months when the dollar appreciated again relative to Euro after basically having gone down for about 18 months before that. You saw a lot of negative FX reaction in AGA's performance. I think that obviously has reversed in the past few months. And if that continues it will reverse in the next few months. I don't think our portfolio as such has a massive exposure in terms of the underlying companies through FX generally. But since more than 50% of AGA's portfolio is invested in assets and securities denominated in dollars or non Euro currencies, there is a lot of portfolio exposure. There is not a lot of company exposure, but there is a lot of portfolio exposure. And volatility there will have a significant impact on portfolio valuation going forward.

Last risk, interest rates which has been talked about a lot. I personally don't view it as a massive risk for macro for some reason because I think the central banks are quite delicate about how to deal with that. But I think interest rates in the US will climb possibly significantly in Europe. I don't necessarily see that. I see that more of an issue for FX and valuations in the portfolio. Not so much for the Portfolio for the macro from an operational perspective.

So just to sum it up again, I think the world that we currently see is eminently investable. Macro is good, but there are man-made risks out there which I think will create volatility over the next 18 months. Hopefully we will be able to exploit that sort of volatility with Apax Global Alpha. I think the fund is set up in a way that we have a liquid part of the portfolio that can be used more opportunistically that can actually benefit from it and our intention is clearly to benefit from it. I think the private equity side is healthy. It is definitely a market for exits. It is a seller's market, not a buyer's market. But I think due to the transaction velocity out there, there is interest in buyers opportunities out there as well.

That concludes my Presentation. I am happy to take questions.
So no questions. I have either been tremendously clear or tremendously unclear! Please.

Question.
So I will ask a question. So on page 11 when you talk about sectors, you say that digital exposure is expensive. Obviously you have it in AGA, or digital kind of fund, can you marry the two please?

Answer:
Yes I think that is right, if you look at. I think you can see it reflected in two ways in this chart. First of all if you look at this ellipsoid thing above the bar charts, you can see the average multiples in that sector and then you can also see the relative deviation that lately happened to long-term averages and I think digital is expensive. That being said, digital obviously is quite heterogeneous as such as we are trying to make the picks that have the best kind of relative value. I think so far in terms of the digital exposure, both in the Global Fund as well as in the Apax Digital Fund, they have been very positive and have been performing better generally than we had anticipated and maybe when we made the investments, I can't think of a single digital investment in the past two years that has gone wrong or has actually not surprised on the upside. So we are trying to select the relative value opportunities and obviously we are also trying to add value to these opportunities. As you know we have a digital practice and we have an Operational Excellence Practice which are together about 20 people whose focus is really to strengthen portfolio companies in the digital dimension. That can be strategically or can be operationally. And many of the portfolio companies while they are already digital they benefit from operational help and improvement and many are more bricks and mortar companies who are not digital yet or only have made small steps in that direction, they benefit from strategic advice, and then following that operational help. So that is how we kind of try to deal with that.

Question
Do you see any changes in the holding period of the private equity investments that you have from entry to exit over the last couple of years?

Answer
Not over the last couple of years I don't think. But clearly the investments we made before the financial crisis i.e. investments made pre-2008 maybe 2009 we have held longer than the average holding period. I don't think we are moving too quick on flips for the more recent investments. So I think on average, the average hold period of the portfolio will decline, but that is just because the old stuff that we have held for a while, for a long-time will gradually be divested.

Question
How does the macro view you talk about influence the split within Apax Global in terms of direct or derived, and within the derived between equity and debt, or does it?

Answer
It does. So if you look at our publications and what we told investors here in that forum for the past two years is that we generally think that equities are on a relative basis more attractive than credit

because credit being very expensive. Yields having compressed and margins having compressed for most part of the last two years. And I come to the more recent development in a second. And we see the inflation risk and also interest rate risk obviously being more difficult for credit than for equity. So we have been favouring within the Derived Investment Portfolio, we have been favouring equities and between derived and private equity we have kind of gradually increased the exposure to equities.

Now I would say that in the past three months or so there are signs for I think why credit could actually become relatively more interesting. First of all the interest rates are picking up and the base rates are picking up, the base rates are picking up in particular in the US. I think we have also seen the decline of margins at least stopping. And so my hunch is and maybe Ralf can comment on this later when he is talking about Derived. My hunch is that credit has become more attractive in the past three months relative to where it was 12 months ago.

Now where do I see the portfolio going in the next year or so? I think we may see a little more credit coming back into the Derived Investment Portfolio. But generally I still feel that there is probably on average better value in equities than in credit. But I think we will see more credit than we had in the past 12 months coming up. I think it is too early to talk about an inflexion point, but it currently feels a little bit that credit is getting more attractive.

If that is it in terms of questions, I will hand over to Ralf.

Ralf Gruss

COO Apax Partners

Thank you Nico. So good morning and welcome everybody from my side. My name is Ralf Gruss, I am the Chief Operating Officer of Apax and also a member of AGA's Investment Committee.

Now Nico has talked about the investment environment, what I am going to cover in my session is just to update you on the performance of AGA in that environment and how the fund has done over the last 12 months. Now to make the information more meaningful what we have done for that part of the Presentation is we have put together the numbers based on a last 12 months basis unless we have noted it otherwise.

So the key messages in terms of performance over the last 12 months that we would like to leave you with are the following. The portfolio structure of AGA has changed. Nico has just eluded to that. That both exposure to private equity and to the listed equity portfolio in the derived investments has gone up. And I am going to talk about a bit more to why that is the case. Nico already made some comments here.

Secondly, on the private equity side, the exposure has become more diversified. And this is the main reason here is a strong start of Apax IX, the fund that started investing about 2 years ago and also the launch of the Apax Digital Fund.

Third, portfolio performance overall has been subdued, the main reason here is foreign exchange, but again we are going to drill into a bit more detail here. In terms of performance if I look at the sub-portfolios, derived equity has been the highlight and again we are going to cover that.

And last, but not least I want to spend a minute on dividends and the way AGA has paid dividends and strategy going forward.

Now let me start with the portfolio structure first and the exposures that AGA has. Now over the last 12 months if you look at this chart here, the private equity portfolio has increased to 66% of the invested portfolio. Also the derived investments have increased and are now at 18%. They are conversely only 16% of the portfolio are now in derived debt. You can see this here in the donut on the right-hand side. For comparison purposes we also show the same numbers here how they were 12 months ago. Private equity was at 53% and derived equity was at 16%.

Now why is that change? There are two main reasons here. And the first is a strong investment rate that we have had in private equity. We have had a number of new investments made by the Apax IX Fund during 2017 which increased the allocation to private equity, but also the Digital Fund started at the end of last year and the AMI, the Israel mid-market fund had a productive year in terms of investment, it is probably not surprising with the background of the investment environment, Israel is characterised by relatively low valuations and strong growth.

And second, we have been talking a lot about in the last 24 months about the relative attractiveness of equity over debt. And this theme has persisted in 2017 and also early 2018, ergo you also see a relatively high share of derived equity within the derived investment portfolio.

And maybe just a couple of additional points, you are looking at this chart, you know this current portfolio split is obviously a temporary deviation from the 50:50 balance that we have in the long-term for AGA between private equity and derived investments.

Now as most of you know, the investment manager isn't managing the portfolio you know to that 50:50 target in the short-term and therefore swings and deviations as we are seeing them here you know should be considered norm. In that context you should please also keep in mind the lumpiness of the private equity portfolio. Just to take an example here, AGA's exposure to GlobalLogic where we have just announced an exit. The IT Services Business you know where the Apax Funds had invested. The last value exposure AGA had to this company was 3.6%. So you know that exit alone moves the ratio by roughly 4%.

So for that reason it is also very difficult to comment as to where the overall Portfolio ratio might go from here. What I can however say is that if you look back over the last six months, new deal activity and private equity has been relatively muted. That has recently changed a bit so we have seen an uptick in pipeline. However at the same time you know there are a number of exit considerations going on in the portfolio. So from where we are today with all the caveats that you have to make I think it is at least fair to say that if the pattern were to persist that the ratios shouldn't move up significantly during that year in terms of private equity taking a larger share.

Now with that let me touch upon the vintage diversification we have in private equity. Now the key observation here is that the diversification has gone up and historically if you look at the portfolio of

AGA and private equity historically, it was quite skewed towards investments made through the Apax VIII Fund which after IPO was by far the largest commitment that we have. And that fund did the majority of its investments during 2015 and 2016 so these were really the vintages where we had the highest exposure.

Now as Apax IX is being invested now, that adds to the diversification of the Portfolio, you know with deals done from roughly the middle of 2016 and a lot of deals being done during 2017 adding to the portfolio. On top of that we have increasing investment rates in the AMI Fund and as well the launch of the Digital Fund that I have just talked about which adds to that diversification.

Now if you look at the chart, some of you might ask well the Apax Digital Fund has started so why don't I see it in the donut? The reason here is because we are still bridging the new investments made by the Apax Digital Fund with a capital call facility. As you know our private equity funds operate capital call facilities that make it administratively more easy for the fund to call money from investors. So new investments done by the Apax Digital Fund have not been funded by AGA yet, but are bridge funded by the capital call facility.

So I have already mentioned Apax IX and the Digital Fund a number of times as these are our two latest funds. I want to spend a second to show you the progress we are making in terms of investing these two funds since the launch. Now both funds are off to a good start. On the top of the chart you see the investment rates for Apax IX which progressed very nicely during 2017. Also on the chart on the right-hand side you can see all the investments made by the Apax IX Fund. So quite a number yet. We have covered the background of those investments during our regular earnings calls so I won't go into more detail here. Let me just make one comment though. Overall the Portfolio is in good shape. Nico will also talk a bit more about the approach we are taking in terms of investing the remaining part for Apax IX in the next session and the themes that we are looking for in terms of getting the fund fully invested. Also very pleased with the performance of the Digital Fund so far. You can see at the bottom of the chart the progress that we are making in terms of investing that fund. Again we have a separate session on that later on. Salim, who heads our Tech and Telco sector and who is also a member of the Investment Committee for the Apax Digital Fund is joining us later and will talk about that fund in more detail.

So with these comments on Portfolio structure, I would like to move onto performance of the Portfolio over the last 12 months. Now the performance has been muted. There was one key reason here which is simply currency headwinds that we had given our exposure to the dollar, but also the performance of the sub-portfolios has varied. And you can see this on the next chart here, where on the top of the chart you see the performance of AGA over the last 12 months broken down by contribution of each of the sub-portfolios.

First of all the comment that I have just made on foreign exchange. It becomes very visible here. 9.4% of performance if you show it in Euros has been shaved off through headwinds that we had from the US dollar. On the flip side, all of the three portfolios in AGA, if I break down derived investments into two, private equity derived debt and derived equity had a positive contribution to performance. But as I said, the relative contribution to performance varied across those three asset classes. Now we are showing this on the bottom half of the chart. And to eliminate this quite significant noise that we have from currency, we are not only showing the euro returns which the Fund reports, but we are also showing currency adjusted returns here.

Now let me take each of those three sub-portfolios in turn. The returns in private equity if you look at it on a currency-adjusted basis, have been good, but frankly they are below what we think we can achieve in private equity clearly. This is due to mainly three companies, the cost of drag over the last 12 months. The first one is a name that you have heard before, it is the investment that the Funds made in FullBeauty. The other two difficult investments that we have talked about before in the Apax VIII portfolio are Answers and Rue 21 actually didn't have a major impact any more over the last 12 months because they were already written down by March 2017. So no real impact from those anymore.

Two other valuations you can see in the Portfolio that are probably worth highlighting which caused a drag. The first one is frankly a mark to market movement. It is in Evry, the IT services business which was listed in listed mid-2017. It is trading at a discount to peers, but it is operationally doing fine. But as we are following the list at market valuation here, swings in the share price and also it is denominated in Norwegian kroner, have had an impact on the headline.

And the third biggest valuation impact came from a company called OneCall. It is a worker's compensation business in the United States. Again just to remind everybody, you know OneCall has been working through some operational issues resulting from the merger with Align Networks. However again here we have recently seen some improving performance in that company.

Now we have had this drag on returns here as I am going to talk about a bit more in a minute. The good news is however that the overall portfolio, its operational performance is strong and therefore we are quite confident that going forward we can create value out of the existing private equity exposures that AGA has.

Let me briefly touch upon the other two asset classes here. Derived debt. Our returns in debt have been pleasing and very close to the target returns that we have if you look at them on a constant currency basis. You know this is despite the fact that we still have a drag again in the debt portfolio which is a debt investment in FullBeauty that AGA made at the time also the private equity funds invested in FullBeauty. And the highlight clearly over the last 12 months is to report that as been, derived equity, the returns have outperformed our targets here both on a euro basis but also on a constant currency basis.

So let me go into these three buckets into a bit more detail again and double click on those. Let's start with private equity. So the page here shows the return contribution to the private equity returns over the last 12 months, essentially decomposing returns into the key value drivers. Now the points I would like to highlight here, the first one is operational performance and as we said, operational performance in the portfolio is strong. Growth in the underlying portfolio companies earnings have contributed 17.6% to returns. Now if you look at average LTM EBITDA growth, that has been 14.8% over the last 12 months, it is up on the chart here. Now that 14.8% includes the effective acquisitions. But even if you adjust 14.8% growth in EBITDA for significant transactions, LTM EBITDA growth was 8.2% over the last 12 months. So very robust performance even if you exclude M&A.

Now the key factors here again and if you look at it from a value driver perspective. That is essentially bringing down a 17.6% return contribution from earnings growth to the returns that we are showing for the private equity are three. The first is foreign exchange and I have talked about that. You can see in the private equity side it had an impact of 7.5%, that is the bar on the right hand side. The second is management fees and carried interest accrued by the Apax Funds. The reason here is that this is higher than usual because Apax IX is still relatively young fund in the sense that it is still being invested. And therefore the portfolio still suffers from the J-Curve effect that you see in private equity.

And the last is movement in net debt. I mean Portfolio companies often use debt to fund acquisitions and as we are looking at equity returns here, an increase in the absolute level of debt translates into a negative impact on returns.

Now average leverage levels across the Portfolio however remain quite modest, they are at 4.2 times at the moment. And clearly in the 4.2 times there is a spread between companies that can carry more debt versus companies that can have no or very little leverage. But overall across the Portfolio it is very moderate at 4.2 times.

Now before I move into discussing returns on the derived debt and the derived equity portfolios, I want to spend a minute and make a small detour into how we are valuing the portfolio in private equity as we have had questions on this in the past.

The Portfolio is valued each quarter using largely trading multiples of comparable companies or a combination of trading and transaction comparables. So what we are showing on this chart here is on the left hand side the valuation approach and on the right hand side the valuation metric that is being used.

Now for listed companies obviously the share price is used as a basis for valuation. In terms of the valuation metrics, if you look at the right hand side, EBITDA or a derivative thereof, is the key valuation metric used across the Portfolio. However you know for some companies we are also using other valuation metrics such as EBITA or sometimes if companies are in carve-out situations, if there are no reliable EBITDA base yet you know we are looking at them from a revenue basis. And then these metrics form the basis for the valuation, but again you know the predominant valuation basis we have on a portfolio is EBITDA or a derivative thereof.

Now I don't really want to spend a lot more time on this chart, just thought it was useful information for you to see how the private equity portfolio is being valued and what the metrics are that are being used. I should also be clear from that chart that in terms of the overall valuation of the private equity portfolio, it pretty much follows movements in public markets, you know due to the relevance of trading multiples as part of the valuation exercise.

Now with that small detour, let me go back to performance and the performance of the Derived Debt Portfolio. Now that page here provides more detail on the performance of the Derived Debt Portfolio. The graph on the left hand side are the numbers that you have already seen. It shows the returns both in Euros and on a constant currency basis. Again the big difference which you are seeing here is the exposure that we have to US dollars in the Derived Debt Portfolio. As at the end of March 92% of the Derived Debt Portfolio was denominated in US dollars. And you know with the US dollar declining 13.6% against the euro over the period, we had a significant impact on the headline euro returns.

The table on the right hand side shows IRR performance of the debt investments that were realised in the 12 months to 31 March. Again these returns are on a constant currency basis, just to eliminate the currency swings. These returns have been very good. None of the deals realised generated an IRR below 10%. Most of the deals generated returns somewhere between 10-12% in that bracket. So exactly within target range, but also had a number of deals that outperformed that. You know some of the IRRs benefited from shorter holding periods, you know for instance the investment in KEPRO or the debt investment in RIEMSER were held by AGA for less than a year which helped the IRR. However there are also deals here that out performed our targets over longer holding periods and good examples here are the investment in Azelis, COLE HAAN or Exact.

Now what we don't show here but what is also worth mentioning is that the rest of the Derived Debt Portfolio that hasn't been realised yet is in good shape. All the investments in the Derived Debt Portfolio other than the FullBeauty investment actually are sitting on unrealised gains if you look at that on a constant currency basis.

So let me briefly touch upon returns in Derived Equity. The returns in Derived Equity as I have already mentioned have been very strong over the last 12 months and clearly the decision to focus more on equity investments rather than debt investments has paid off. And I am also pleased to report that all but one investment exited produced positive results. The majority of exits have been between a 1.1 and 1.4 times money multiple. 8 deals were in that bracket. So again strong performance here on the Derived Equity side.

Now to conclude my Presentation, I wanted to spend a minute again also on Dividends. And Susie has already talked about this in her introductory comments. Dividends paid by AGA since IPO have been strictly in line with the dividend policy and strategy that has been set out to distribute 5% of NAV annually since IPO. Again I had some questions here from shareholders how we and the Board thinks about dividends in light of the fact that the share of derived debt has reduced in the Portfolio. Again from my side here, just to highlight that you know AGA is a Guernsey incorporated company it doesn't have an income test to pay dividends. It pays dividends out of cash so it needs to have sufficient cash to pay the dividend. Cash is fungible so we have a number of sources of cash in the Portfolio, dividends from the listed equity portfolio, interest, but also gains and proceeds that we receive from selling investments or distributions. So from our perspective as an investment adviser, and you have already heard it from Susie, there is no intention to make any change to the dividend policy that we have.

So before I hand over to Nico again, to talk about the current investment approach, just to recap, the performance over the last 12 months starting with the structure of the Portfolio, has changed. We have a higher share of private equity and a higher share of listed equity. The Private Equity Portfolio has become more diversified. We have seen some subdued performance on the headline, a lot of that was driven by currency. The Derived Equity Portfolio has been the highlight in terms of performance and in terms of dividends the fund has continued to pay dividends in line with strategy.

Now I am happy to take any questions now. We also have a Q&A Session at the end of all Presentations, but if there are direct questions to performance here, happy to take them now.

Question
The debt multiple you mentioned of 4.2 times, that has actually come down over the last couple of years. Is that mixed factors at play or are you intentionally putting less debt into deals given where we are in the cycle?

Answer
No I don't think we are intentionally putting less debt into transactions. As I said you know the debt levels vary quite significantly between portfolio companies that are large stable cash generative businesses that can sustain higher debt levels. There are also companies that are adding debt to make add-on acquisitions. However on the flip side there are also companies in the Portfolio that have no or very limited debt. And therefore there is not an intentional approach to limit debt, it is rather mixed. And obviously repayment of debt as companies mature.

Question
I wanted to ask you if you could remind us how you allocate the strategy when you have the private funds and Apax, especially because you said that Apax is not yet into many Digital Fund for example. When should we expect more exposure of Apax to the Digital Fund or is it just as the Fund grows?

Answer
I mean the economic exposure is there in the Fund because the investments have been made at the level of the underlying funds. The Private Equity funds have a mechanic that they use a short term bridge facility to essentially bridge calls from investors. The way these facilities work is that usually an investment is bridged for about 12 months between the time it has been made to the time the money is being called from investors. So in terms of calls from AGA into the underlying funds you should roughly assume a time delay of up to 12 months.

Question
Across all the funds for Apax exposure how much money is drawn under the bridge?

Answer
I honestly don't have that exact number here at the moment I would have to follow up with that.

So if there are no more questions here, I would like to hand back to Nico to talk a bit more about how we approach Private Equity Investments in the current environment.

Nico Hansen

Private Equity

Thank you Ralf. Maybe before I talk about a couple of trends that we see quite highlighted in private equity, let me touch upon a couple of things that Ralf has said just to also look at how I think Portfolio performance could develop over the next 12 months. In the past 12 months or maybe even in the past 18 months, if I take Forex aside on the private equity side, we had returns you know falling slightly short of the double digit that we would at least want to see in private equity. And I think Ralf has said that we had a drag of less than a handful of portfolio companies which weren't performing very well in particular with exposure to the US retail and US apparel retail in particular. You guys know that this is a very challenged sector and other private equity firms also have their issues in that sector.

I think what gives me hope that the Portfolio's performance in the next 12 months will be significantly better is A, that the operational performance of the Portfolio is very strong and B, just from a valuation perspective, these struggling investments are almost irrelevant today. And so in a way their poor performance won't find its way any more into the valuation development of AGA or AGA's Private

Equity Portfolio. So I think almost mechanically we should expect a better performance of the Private Equity Portfolio. Now that obviously assumes that the markets stay where they are. Ralf explained that we use market multiples in particular to value our Private Equity Portfolio. And if the market tanks then valuation multiples will tank and that will influence how we value a Private Equity Portfolio, but assuming that markets stay the same, then I think performance will almost mechanically be better in the next 12 months than it has been in the past 12 months.

So with that said, I would like to talk about a couple of strategies that we are using to work in the current valuation environment which as I mentioned, is characterised by buy-out prices for private equity investments which are generally in a double-digit EBITDA multiple range. We saw they were between 10 and 11 times LTM EBITDA for the past few years, and probably in 2018 what we have seen so far, they are kind of at the higher end of that range. And so we are obviously trying to mitigate that somehow with private equity investment strategies that address this issue of generally high valuations. And so two topics I would like to touch upon here are consolidation plays and corporate carve-outs.

If you look at the left-hand side of this chart here you can see that the percentage of investments which were made in either M&A consolidation plays and carve-outs or a combination of the two has increased almost dramatically between the investment vintages 2014 and 2015 on the far left and between 2016 and 2018 here in the middle. So while we had 27% roughly a quarter of new deals associated with carve-outs and M&A plays in the 2014 and 2015 vintage we had significantly more than half of the Portfolio in these kinds of strategies. And you can see the names here on the right-hand side of Portfolio companies that we added in those vintages that are characterised by or driven by strategies of either M&A consolidation and roll up plays or carve-outs, corporate carve-outs and I will touch upon what I mean by that in a second, or a combination of the two.

Now let me start with a combination of the two here with an example of ECI. ECI is a North American maker of ERP software solutions for small and medium size businesses, in particular around building and construction, distribution businesses, field services and manufacturing. And ECI was bought by the Apax IX Fund in September 2017 and on day one of that investment, we combined it with a carve-out from one of our existing portfolio companies, Exact, which is a software maker predominantly active in Europe, but they had a US Portfolio of ERP software as well. And so we carved out that US Portfolio of ERP software from Exact and added it to ECI. And the beauty of that transaction was actually threefold. First of all we could water down the multiple we paid for ECI on day one on a pro forma for synergies basis. Second, we were able to actually streamline the Portfolio of divisions of businesses within Exact. And third, we were able to effectively create more purist software makers in their own rights which should fetch higher multiple in the downstream sales side market as we go along. And so in many ways this was a sort of an ideal transaction applying certain skills that we have adopted over the years combining businesses. We have a post merger integration division amongst our Operational Excellence Practice. And separating businesses from each other in this carve-out procedure. That allows us to tackle situations which are more complex and maybe others might want to tackle and it allows us to take these kind of situations which are a little more tricky or a little quirkier than the average and buy businesses at reasonable prices in an otherwise quite frothy environment.

Apax GLOBAL ALPHA

You have seen software multiples I think on a slide earlier, we can easily see that what the average private equity house is willing to pay for software businesses is now above 15 times EBITDA. On a pro forma basis we acquired ECI around 11 times EBITDA which is extremely low for software.

I am not going to go into too much detail here on the operational side of ECI but the whole software world is characterised by moving from one-off revenues towards recurring revenues, that is either happening through maintenance streams for software packages or for software paid for as a service, so called SaaS. And you can see in ECI that actually the share of recurring revenues in its Portfolio has increased significantly from I think about 60% or so in 2013 to more than two-thirds, sorry, more than three-quarters to close to 80% over the past few years. That is going to continue, that is actually strengthening the revenue quality and predictability and that is also hopefully the exit valuation over time.

So then second dimension I would like to touch upon and addressing one of the questions that was raised earlier, is digital exposure of AGA and of the underlying Apax private equity funds. If you look at AGA's exposure to what we call digital situation it is mostly online businesses between the end of 2016 on the far left and March 2018 here on the right side of these yellow bar charts, you can see that exposure going up from 40 to about 45%.

Now it sounds little, but you have to imagine that obviously Private Equity Portfolio doesn't churn that quickly. We on average hold private equity companies between 4 and 7 years I think 5.5 years is actually the median. And so the natural turnover of that Portfolio is small. For that to ramp from 40% to 45% within 15 months is actually quite an achievement and I wouldn't be surprised if that actually continued for the foreseeable future. Now you can see the names here of Portfolio companies that we have added in the past 15 months here since December 2016. And you can see them spread across the Global Fund on top, Apax IX which we have been investing for the past 12 months or so, Apax Digital which we have been investing for the past 6 months or so and AMI the Apax mid-market Israel fund which has been investing for 3 years, but also has non insignificant exposure to digital. And these companies they span a pretty broad range of different kind of business model. You can see MatchesFashion and Moda Operandi here which are both retailers online, purely online retailers for luxury fashion. So the big brands you might imagine like Prada or Louis Vuitton and stuff like that which we feel is isolated from the threat of being Amazoned.

And then you can see other models like Digital Marketplaces or enablers of digital businesses like Boats Group and Global E which are active in a very different B2B segment of the digital space which never may actually touch the consumer but really have customers amongst agents or businesses which are wanting to sell to the consumer.

I will pick one here that I think is a good example for our general strategy in Digital and it is the Digital Marketplace called Boats Group. Boats Group we acquired or Apax IX acquired in 2016, I think it was a first investment made by Apax IX. It is the world's largest digital marketplace for recreational vessels, boats. If somebody is a boater here, you will be familiar with the brands like BoatTrader or Yachtworld or Boats.com. In Spain it is Cosas de Barcos. And it is a multiple in terms of size of the next largest digital marketplace in that field, as you can see here on page 41. It is probably ten times of the next largest player in the space. The three yellowish lines here are actually the different brands that are making up the left hand side Boats Group as a total. And it is a strategy these digital marketplaces that we have actually known and pursued for quite a while. You may see some familiar investments here of some familiar companies.

These are all the digital marketplace buyouts that Apax has done over the past 5-6 years to the furthest on the left, AutoTrader obviously big business we IPO'd in the UK. And then you see maybe some more unfamiliar names like SouFun which is the largest digital marketplace for real estate in China which we invested in and have exited in the meantime. Or idealista, you know still a current investment which is a leading real estate oriented marketplace in Spain. And Boats Group kind of fits very well into that kind of portfolio. It actually fits also very well in terms of the strategies we are typically pursuing with these companies. You know how to create value and that goes from yield increases or yield management to improving click-through rates, kind of operationally and repackaging the offerings. And Boats Group actually comprises in terms of what we can do with it, you know many or all of these strategies to a great extent. Which makes us believe that actually there is a lot of value to be created here in the future. You can look at the bottom chart here with the growth rates of Boats Group in the past years before we acquired it, it was growing with single digits and growth has accelerated quite significantly in the past and I think it will accelerate even further to be in the 20s in the next 12-18 months by applying some of these strategies.

And the whole trend of Digital is clearly the big trend for us. It is something that we have enabled with investing in our Operational Excellence Practice and the Digital practice specialists effectively who are helping businesses like this to improve their performance significantly.

This is what I wanted to kind of dive into in terms of detail on the Private Equity side of the house. Happy to take any questions that may have arisen.

Question

On the ECI M&A, I think Exact is a previous buyout fund isn't it?

Answer

Yes.

Question

So how did you handle the valuation conflicts?

Answer

Yeah there was a Valuation Committee actually dealing with this on both funds and a third party independent valuation was created by one of these valuation firms. Both are LPAC, that is a Limited Partner Advisory Committee of Apax VIII and Apax IX had to sign off on the fair value of the transaction.

Question

You mentioned the Operational Excellence division quite a lot there. Has this part of the business grown as complexity has increased in the deals that you are doing?

Answer

Yes absolutely.

Question

By how much?

Answer

Well so in terms of the Operational Excellence Practice, ten years ago there was nobody and now it is close to 20 people so it is as big as our Sectors Group today in terms of manpower. And that you find obviously reflected also in terms of the Portfolio companies that kind of require the services that we are creating or that we are offering to them. And so I would also say that this is reflected by the increasing complexity in the Portfolio. So if you wish, we are buying into more quirky situations where the price pressure is less than the average buyout, but we have to shoulder more operational risks and have to deal with more operational risks as an exchange for that.

Question

Probably relates a little bit more to what Ralf was saying, but he was talking about the bridge financing for investments. I was just wondering what the cost of that is or and also the impact on the IRR of your unquoted funds as a result of that?

Answer

Yeah, I don't have the exact kind of costs on my mind, but I think it is generally a floating rate EURIBOR / LIBOR + It is between 100 and 200bps. We have introduced this as many other private equity houses have done it predominantly to actually simplify the operations in terms of only having to draw down capital for a few times in a year from our LPs, but I shall also say it is enhancing IRR and it is something that everybody does also for that purpose. And what the size of the IRR enhancement effect is I don't quite know, but I think it is a couple of percentage points.

Question

Could you give us an idea of your hiring and personnel related to call it the growth in Digital and are there separate carve-out teams or consolidation teams?

Answer

Absolutely. So the digital fund was raised in 2017 and before 2017 we didn't basically have a kind of a separate team. Ralf, how big is the investment professional team of digital fund, 15 people?

Ralf

It is around 15. Salim is going to talk about this in more detail.

Answer

Okay, so you will hear about this from Salim, but it is 15 people who are dedicated to this. Now I will say that we are sometimes seeing situations where actually digital fund people help on Global Fund deals and the other way round. And so actually we found this quite fertilising both ways so far. These people are dedicated but they also sometimes branch out and assist and help with transactions in other funds.

On the Operational Excellence Practice side we have I think close to 15 or 20 people. There is indeed a specific carve-out practice there with 3 people I think dedicating 90% or more of their time to just that. And there is also a Digital practice within these operational excellence guys and actually that is the largest group in the operational excellence practice, our digital specialists and they are dedicated to just that. Now that doesn't mean they are not working with something else occasionally, but I would say the degree of specialisation is very high.

Question

I don't want to go too far off subject here, but can you talk a little bit about the costs involved and fees associated with running not only the Apax Funds, but also Global Alpha. So how all the fees feed through both at the funds level and also at the Global Alpha level?

Answer

Yeah okay happy to do that. So first of all as a general principle, there is no layering of fees i.e. when investors in the underlying Apax Funds and Apax Global Alpha is an investor in the underlying Apax private equity funds. There is a fee being paid there. There is no fee on the Apax Global Alpha level. So as a general rule, fees on the Apax Global Alpha level are just applicable to the derived investments as a general rule.

On the Apax private equity funds, they generally have a one and half plus 20 model subject to a hurdle of 8. Again when I am saying generally it means that actually due to different size, classes of investors, the fees they are paying on the management fees they are paying may go down as low as 125 because larger investors are generally paying lower fees than the smaller investors. But it is not a big difference. We are talking 125 versus 150. And generally Apax Global Alpha at least historically has been amongst the largest investors in our Private Equity Fund and Apax Global Alpha is benefiting generally from the lowest fee brackets.

And on the Derived Investments, we are following I think the 125 plus 20 rule again subject to a hurdle of 8.

The fee model is a little different I should add, on the Derived side than on the Private Equity side because the Private Equity model generally has the rule that we have whole fund carry which means that carry or performance fees of 20% are only being paid on the funds fully returned to investors. On the Derived side we have adopted the kind of thinking here by not paying fees based on mark to market valuation changes, but only being paying fees based on realised gains, on a cash for cash basis, but it is on a per investment basis as long as the hurdle for the overall investment year so to speak is met.

If there are no further questions, I will hand back to Ralf to talk a little bit about the Derived Investment approach.

Ralf Gruss

Derived Investments Approach

Thank you Nico. Before going into Derived Investments, I had a chance to check on some of the numbers that have been asked around the bridge facilities. So let me just give you these numbers here in terms of drawings of the capital call facilities at the end March. For the main funds that we have in the Portfolio Apax VIII was around 2%. Apax IX 0.5%, ADF, so the Digital Fund is 13% and AMI 0.5%, again that is as a percent of the funds size in terms of what has been drawn.

And costs, just to confirm what Nico has said, you know the cost ranges margin roughly 1.5, 1.6%.

Now to go into Derived Investments, what I would like to do in this session is just talk you through how we go about identifying, analysing, selecting pricing and monitoring Derived Investments in the Portfolio.

You see an overview here. I mean overall the process we use is very much aligned with the process how we would also go about making private equity investments in the Portfolio. It largely encompasses four steps and let me just talk you through them on the slide here.

The first is obviously identification of investments. This happens predominantly by leveraging the sector knowledge that we have within Apax and the relationship the Apax team has also built with the outside world over years. We have put together a number of processes internally that allow us to access the work and the ideas that these teams have in order to generate the ideas for AGA. These processes for instance include regular pipeline calls, screener tools with which we monitor trading levels of instruments in the secondary market. We have monthly updates with the entire investment team in Apax on the AGA Derived Investment Portfolio to see if that discussion triggers any more ideas. And the objective is really here to pick those ideas that best fit with the AGA investment strategy and provide the most attractive risk return opportunities.

And the second step, you know once we have identified those ideas, we go into diligencing them. Now there is a Deal team on each derived investment idea that are being considered as an investment for AGA. These teams usually consist out of 3-5 people, professionals and it is usually a mix between members of our private equity teams, our capital market team that we have and our dedicated AGA team.

Third, once the due diligence has completed, a Derived Investment is discussed with the Investment Committee of Apax Partners. And as you know the Investment Committee consists of our two Co-CEOs Andrew Sillitoe and Mitch Truwit, Nico Hansen, Roy Mackenzie who is a Senior Partner in our US office and myself. So there is a lot of the firm's senior investment experience sitting around the table and involved in analysing and discussing the investment merits of an offer proposed investment for Derived Investments.

Now the way you need to picture these Investment Committee Meetings is really a joint meeting between the deal team and the Investment Committee in which the investment thesis is discussed, the merits of the deals are being discussed and the risks of course are reviewed as well. And pricing that AGA should accept is also a key part of the discussion here.

Now if the Investment Committee believes that a deal is of interest to AGA, it makes a recommendation to the Guernsey based Manager of AGA that then reviews the recommendation and usually has another discussion with one of the deal team members and if approved, the Investment Manager executes the transaction.

Monitoring, just as a last step, once an investment is in the Portfolio. The monitoring is focusing largely on two areas from a deal perspective. The first is an ongoing review of the company and the competitive environment of the Sector that it is operating in. And secondly, also the progress that the investment makes against the investment thesis and investment objectives that we have set in the Investment Committee.

The monitoring is usually done by members of the original deal team together with the dedicated AGA team that we have.

Now this approach allows AGA just to benefit from the large resource base which we have in Apax, the continuous feedback loops that we have from the Sector teams that allows us to remain ahead of the curve in terms of what is happening in the underlying portfolio companies.

So this is the overall process. And what I would like to do now over the next couple of pages is just give you a sense on how it actually works in practice. And let me start with identification of deals.

Now this chart here summarises how AGA goes about identifying opportunities using four different examples. And I want to start with Syncsort on the top left here and move around the chart clockwise. Now Syncsort, the opportunity here was really to invest in the second lien that had been issued for the acquisition and combination of two infrastructure software assets. The ones called Syncsort and the other Vision Solutions. The opportunity for AGA here really originated after Apax did significant due diligence of the combination of Syncsort and Vision over about a month as a potential private equity opportunity. Now ultimately the Apax funds passed and didn't make the investment and another investor, a firm called Centrebridge acquired the business.

Now when the debt was subsequently issued by Centrebridge to fund the combination of Syncsort and Vision, we felt comfortable recommending a debt investment to AGA here because we had done the due diligence, we understood the defensibility of the model, we understood the cash generation based on the private equity work that we have done previously. So AGA ended up buying 25 million dollars of face in the Syncsort second lien when it was issued.

Now you see another company name here in the top left box, a company called Talend. That is actually another opportunity that came out of the work that we had originally done from a private equity perspective on Syncsort. When we did customer reference calls doing our work first on the equity idea and then on the debt for the Syncsort investment. A small data integration software company seemingly under the radar, got highly referenced to us all the time. And the name of the business was Talend. So we started to look at Talend, it wasn't a private equity opportunity but with the insight we had from these customer calls we did due diligence on Talend as a potential derived equity idea. And ended up making an investment here. AGA invested about 8 million dollars into Talend. The investment has already been realised now and it generated an IRR of 35% and a money of invested multiple of 1.2 times for AGA.

GlobalLogic on the top right here. It is an outsource product development company and it is a portfolio company of Apax VIII. I already mentioned that a sale has been announced. It is a very successful investment for the Apax VIII funds. Now Epam, the name that you see here is actually a listed competitor of GlobalLogic. It is a clear market leader with about 1.5 times the size of the next specialist player in the market. Through our investment in GlobalLogic, our Sector team obviously had a very detailed understanding of the industry and what was happening and recommended an investment in Epam, when Epam's margins temporarily hit a low point. So that was the point of entry that we were looking at. Again the investment in Epam was realised and generated an IRR of 30% for us, for AGA.

SOPHOS a name you have probably heard before, a security software company listed on the London Stock Exchange. It is a Portfolio company of the Apax funds. Now if you dial back about two years in early 2016, there was a lot of volatility in market, but in particular the team that was responsible for software spotted that security software valuations had significantly dislocated and the broader security software sector was trading at materially contracted multiples. Now we considered this as a good entry point in the space, given the conviction that we have around the long-term growth that these companies can achieve. Now in that particular case, the way we levered this insight is that we didn't make or didn't recommend one investment to AGA. But AGA made three investments in three security software companies. Fortinet, Palo Alto and Sophos. Fortinet and Palo Alto have already been realised. Fortinet generates returns of 31%. Palo Alto actually didn't see that strong of a valuation increase that we had envisaged and as we felt less comfortable that it could achieve its investment objectives, it was also disposed, generating an IRR of only 1.4%. The AGA derived investment in Sophos is already partially realised and has been a big winner. Total returns generated on the derived equity investment in Sophos today is at 66% and a 2.4 MOIC since the original investment was made early 2016.

The last illustration is around software on the bottom left here on the chart. It is yet another approach on how we go about identifying ideas for AGA. You know software as you know is a particular investment focus for the Apax funds and it has been in the past you see the Apax funds have made 5 investments recently here over the last couple of years. Through these investments the team or Tech and Telco team has a very deep insight into what is happening in software. And we have used this insight to generate ideas for AGA. Now this is done both in a very systematic way where we just screen software assets in the market, we filter them, we discuss that with our team to identify which businesses provide the most resilient models that lend itself to making debt investments. But also on an ad hoc basis, if and when opportunities become available.

So in summary, there are different ways on how we go about identifying derived investments for AGA, but each of them are essentially going back to some sort of a private equity insight knowledge sector view that we had and that we have generated across the overall organisation.

So before I move onto the due diligence process and how we go about this, let me just cover another dimension of doing the Derived Investments which is really the global platform that we have as Apax. And this is illustrated here on the next page. As you know, we have a global network of offices and we use that global network to find price dislocations in different sub-sectors for AGA's derived investment strategy where AGA can deploy capital. Again examples here on the right-hand side. The top one I have already talked about so I am not going to cover it again, US software debt. AGA has done a number of investments in India Financial Services. It is a space in which our Indian team has a lot of experience. Indian Investment Banks cover private sector banks, home finance businesses, non banking financial institutions in which AGA has invested.

And last is European Healthcare. And Nico talked about Healthcare in the relative valuations at the moment in this market. The fact that we have done a number of investments here. Again you know we have used that insight and that knowledge of the market to generate ideas for AGA's derived investment Portfolio. Riemser and KRKA, the Slovenian pharmaceutical companies are good examples here.

So this is how we go about generating the ideas. How do we do due diligence? I want to briefly discuss using that chart here. Now we conduct most of our due diligence in-house with access to specialist advisors if and when we need them. And again the important thing here is for every transaction that we have in derived investments we put a deal team together similar as we are doing it on the private equity side. The deal team consists of professionals from the sector teams, the dedicated AGA team that we have and the Capital Markets Practice if it is a debt investment. And with that approach we are really able to ensure that we can tap all the relevant knowledge that we have within the Global Apax organisation to analyse that transaction.

The sector teams can provide insight based on sub-sector expertise, the AGA team is involved in both operational due diligence, but also applies debt and trading expertise. And lastly the Capital Markets team has a deep understanding of credit analysis and credit market participants.

So what are the typical investments that the deal teams would bring to investment committee for consideration? Now one of the benefits of AGA's derived investment strategy is that it can exploit a significant degree of flexibility to invest. What I have shown here on the slide here is typical debt investments and typical equity investments that we are usually discussing in the Investment Committee. Now as I have just said, there is a significant degree of flexibility, please don't read these charts that these are the only types of investments that we are doing. I thought it made sense to illustrate what typical approaches are that we take.

Now if you think about debt investments and the ones that we are considering for AGA, these are typically either private debt or high yield instruments on the private side for both syndicated deals or privately placed deals. In order to achieve its target returns, AGA usually aims to invest at a discount to par. So if you pay a combination of yield and excess of 8% and buying them at a discount to par that is the strategy on how you get to your target returns. And the thesis really centres around a temporary market dislocation. So if credits trade-off in the secondary market, because they are misunderstood or the market is just getting more volatile they are event driven. So we think about an investment being potentially refinanced early because the company is performing and responds to refinance, the cost could be a near term exit and that then creating a pull to power with an additional upside skew in terms of returns or a discount that is simply available for instance in a hung syndication.

Now for equity investments to focus us both and develop in emerging markets, and again you know from the investment thesis, centres around an unjust valuation discount which we believe is currently available in the market which unwinds itself over time. It is effectively a private equity type of idea that we try and translate into the public markets. However a private equity thesis that can be achieved without the direct involvement that we would usually have in a private equity buyout, because listed equity investments are uncontrolled investments so we don't have that direct operational influence.

So to conclude that part of the Presentation let me touch upon monitoring and exit. Again I have already explained that monitoring of an investment mainly focuses on two deal considerations. The one is an ongoing review of performance of the company against the sector backdrop. And the second is monitoring the company against the investment objective and the investment thesis that we have had to make sure it is on track to achieve the returns that we say it should be achieving.

Now in addition there is obviously an overlay to that and that is a Portfolio consideration. So for example, liquidity needs that AGA might have to invest in private equity could be one of those considerations. Now for those of you who followed our earnings calls, you might remember that in particular the second half of 2017, knowing that we will have additional calls into the private equity portfolio from new investments that have been made, we were reviewing the derived investment side of the Portfolio to identify those deals that had the least upside in terms of future return generation. And we went on to sell those to fund capital calls into private equity.

Another Portfolio consideration could be exposure. So where we have exposure to underlying Portfolio companies for instance both in the private equity and in the derived debt portfolio we are looking at this exposure and could eventually sell the derived investment side if we think it is getting to high.

So that concludes my brief session here on Investment Approach in Derived Investment. Unless there are any questions now I think we have a coffee break next which was supposed to tell you that we are reconvening at 11 am. I am not sure that is 11 am because it is already 10 past 11. I think we are supposed to reconvene at 11.30 so let's take a break here. The coffee is being served outside and we will restart the sessions at 11.30. Thank you.

COFFEE BREAK

Salim Nathoo

Partner, Apax Partners

Well good morning and welcome back. My name is Salim Nathoo. I co-head the Tech Team at Apax as well as sit on the Investment Committee for the Digital Fund. And for my sins I have been here now for 19 years so an Apax veteran and just done Tech all that time.

So we are going to kick off today with a video on one of our most recent investments in Apax IX which is a company called Thoughtworks. It is one of the largest investments in Apax IX and an investment we are really excited about. It operates in the IT services space and that is a real area of expertise for Apax. We have done about ten deals in the space and measured by both market share and returns, we are number one globally in that sub-sector. And I think it is a great example of how Apax uses its sub-sector expertise to generate deals, to calibrate them, to decide whether this is going to be a winner or a loser and then to add value. And we are going to show you more about that in the video.

What is Thoughtworks? It is an IT services business that helps Fortune 500 companies solve some of the most complex IT problems out there. So it does everything from consulting to designing, to building applications to help some of these companies get into the 21st century and compete with people like Amazon.

It was a very unique business, it was founder owned with a very distinct culture. How did we source it? Well it was on our radar screen but as often happens in these larger deals, the founder decided to run a process and appointed Goldman Sachs. It was a process mainly aimed at strategics with a few sponsors invited. And very quickly we managed to put ourselves in a pole position. Why? Because the founder trusted us because of our sector expertise and he thought we would be a good partner for the management team going forward. As often happens in these processes, the strategics actually fell over. They loved the business, they loved the customer list etc. But they thought the cultural transition would be a step too far for them. And at the end of the process there was Apax and a strategic left. And the strategic was actually at a higher price that wasn't fully deliverable and the founder decided that in the end Apax would make a better home. But it is a really interesting company and you will get a flavour of it from the video.

[Video insert on ThoughtWorks]

So you get a flavour of why we think this is such an exciting investment.

So shifting gears to one of our newer initiatives which is the Apax Digital Fund. And the headline here is that we finished raising this fund at the end of last year. We exceeded our hard cap, it is a 1.1 billion dollar fund. We are focused on 8 core sub-sectors. We are actually at the same sub-sectors as our main fund. We decided to hire a dedicated team that leverage the investment committee from the main fund. And we are already off to a good start. We have invested in four deals and 200 million dollars of the 1.1 billion dollars and there is a very strong pipeline coming up.

And I will say as we thought about this as the equity partners of the firm, we wanted to do something that was synergistic with the whole. So we wanted, whilst generating great returns in this fund, also to have something that strengthened our core business. And as you know in technology there are so many changes going on that this really helps our core business because we can see round corners. So getting an idea of what is going on with some of the more innovative growth companies really reinforces our core buyout business in Tech.

So why is there an opportunity? Well the pace of change in technology has never been more. And on the left-hand side you will see some of the big Tech waves from desktop to internet to mobile. And now on the right-hand side you will see four very big tech changes. Thoughtworks actually calls these the seismic shifts in tech. You will have heard of the internet of things. So that is where machines are completely connected. You will be able to self order a toaster even before you know it. Cloud everything. The cost of storage in computers going to zero in effect. You have these massive Cloud vendors emerging. You will have heard of Amazon web services. You will have heard of Microsoft Azure, Google etc. A massive trend in the tech industry.

Artificial intelligence it is real, it is happening. Again a massive seismic shift. And virtual reality and augmented reality. Pokémon Go I guess is the first of those things, but you are going to see more and more of that. And all these trends are occurring at once which is leading to massive change and disruption in the industry. And so that will give rise to many new companies coming up.

Now accompanying that of course a lot of people have recognised that and so there has been a lot of capital raised, a lot of capital invested. But what we have seen is quite a nice niche because what has happened is many of the companies who were successful growth investors have actually moved up in investment size. So if you look at companies like TA and Summit they are actually doing much larger deals now. Similarly there is a lot of capital at the bottom end for the venture capital side of things. But in the middle there is a nice gap we think we have identified.

So what is the strategy? Really it is a replication of our main fund strategy but just on more growthy, smaller scale type companies. So two main areas of focus. Consumer internet, marketplaces, where we have done a lot of deals in the main fund. AutoTrader being a great example there. Content and Digital Media, Disruptive ecommerce, Matches and Mobile we have done a lot in. And then Enterprise technologies, IT services, Tech enabled services I mentioned before, the ThoughtWorks of the world. Horizontal platforms, security software and things like that SOPHOS and Data and Analytics again we have looked a lot at.

So it has got two main focus areas in terms of sub-sectors, but also in terms of stage. We said we don't want this to do venture capital and we don't want this to do Unicorns. Really there is a nice space in-between. One is growth buyouts where we are looking for companies with a 10% growth plus outlook where there is upside to grow that further either organically or through M&A. These will be profitable companies, they have got solid cash conversion and these will be control deals.

And complementing that are minority growth deals and this could be where you are maybe cashing out a founder or providing capital for growth as well.

Typical equity checks would be 50 to 100 million dollars with 100 million dollars being more the growth buyouts and 50 million dollars being the more minority growth.

We also took a deliberate decision that we needed a separate team here. We thought for focus reasons it was really important to invest in a separate team and some of our competitors have decided to leverage the existing teams but we thought we really did need a separate team here but that we would have a lot of communication and we would share a lot of knowledge through the Investment Committee, but also through seconding people to deal teams.

So in terms of the leadership of the team, we have two managing partners. Marcelo Gigliani who actually moved over from our buyout fund. He is a 20 year veteran of Apax. He has done a lot in consumer internet, things like Trader Canada, Dealer.com etc. So a real veteran there. And then Dan O'Keefe who we recruited from TCV and TCV is one of the world's major growth investors. He headed the consumer internet team. It was a little bit back to the future, in fact he started his career as an associate at Apax and stayed in touch with us so he was part of the family. Anyway they have gelled really well together and below that we have managed to hire some real talent. The attraction of the Apax brand plus being at the start-up phase of growing a company like this has proved really attractive and we have hired some great people. So Mark Beith who was a Senior Principal at SilverLake in London and Brian Gartner and Zach Gut who come from Insight and Summit. These are really Tier I names in the space and so we have managed to attract some real talent. And below that we have a junior team of 11. So the team is now mainly complete. It sits in London and New York and then we leverage the teams in India and China.

So I mentioned we had done four deals to date, all of which we are excited about. The first company is called So Young. And this is a marketplace for aesthetic medicine treatments, think Botox. And what it does is if you are looking for a Botox treatment then it will give you a list of the practitioners in your local area and it will give you consumer reviews on what have people done and how do they feel about it etc. It will connect you with the practitioner and makes its money through a combination of transaction revenue and advertising revenue. And you can imagine, it is a bit of a virtuous cycle because the more reviews you get, the more practitioners you get and the more must have you are as a platform. So this has one of these great network effects. And I will say in China this is a massive growth area whereas perhaps in the West, it is older people. Here you will get 25 year olds having Botox. So this is an absolutely massive growth area believe it or not and it is growing like a train.

How did we source it? Well it was actually our China team who found the deal. And this is the benefit of having the main platform. Before we had this Fund we just couldn't do it. It was too small, it was minority growth, but this is a perfect investment for ADF and I would say it is growing like a train and there is an opportunity for an early IPO here.

Moving onto Moda Operandi, this is an ecommerce retailer and it operates in the high end fashion space. So similar to Matches, although it is even higher end than Matches. It has got two bits to the business. One, is something called Trunkshow where you can actually buy clothes straight after the major fashion shows and believe it or not people do this and then they actually get delivered the clothes 9 months later, if they pay up front for it. But it means you get secure access to the clothes. And then they have got a boutique business which is kind of like Matches but higher end, where you can actually order just from a store, clothes online. Dan had been tracking this business for a number of years, they really liked our expertise both again from Matches, but also how our Operational Excellence Practice with its digital capability could add value. And so we were a real selling point and this is an example of a minority growth capital deal and it has got off to a good start.

Now moving onto two deals in the IT services space. As I mentioned, this has been a real area of focus for Apax. We have done 10 deals in this space and our brand is really strong. If you were to go to any of the major IT services vendors, Accenture, Cap Gemini, Cognisant, they would all know who Apax was at a Board level. The reason being is because we bought and sold businesses from them and they know our Portfolio. So we really have a strong brand in this space.

Wizeline was kind of like a mini ThoughtWorks. A fairly early stage business. This year it will do 70 to 80 million dollars of revenue, great CEO and management really matters in these kind of businesses. Good customer base although initial with media companies like Newscore and a very strong delivery centre in Mexico which was a bit of a USP as well. Again we are able to be an attractive partner for the CEO because of our industry knowledge. They see what we have done with ThoughtWorks, they see what we did with Igate. They saw what we did with GlobalLogic and so it is a very natural conversation to have in terms of partnering.

But perhaps even more importantly we then have a playbook of what to do and how to add value and partner with these companies to accelerate growth and so we are in the early stages of doing that.

The second investment we have done in IT services in our Digital Fund is a company called Solita and this was a majority buyout so in this case Apax Digital actually controls the company. And a perfect example. This is a slightly larger company. 80 to 100 million euros in revenue. Growing solidly, 15% plus a year. It is very strong in artificial intelligence and analytics. It is the market leader in Finland and the idea is to help this expand into Sweden and the other Nordic countries to become a real leader. It was a competitive process, but again we were able to get into a preferred position with management because they liked our expertise from our other Tech services companies. Again we just in fact closed this yesterday and we are now going to be now busy on working with the team to add value.

So hopefully that gives you a flavour of what we have been up to in Apax Digital. Very much leveraging our main platform. We are seeing fantastic deal flow. We have got two or three more in the pipeline, in fact I have got an Investment Committee after this where we will be discussing a new deal. And it is something that has worked really well and synergistically with our main business.

So thank you for that and I think we are onto Q&A.

Question and Answer Session

Question 1

Just a quick question. I thought the ThoughtWorks video was very interesting. Where have we got exposure to it in Apax Global Alpha?

Answer:

You would have exposure through Apax Global Alpha's investment in Apax IX. And in terms of NAV what would it be Ralf?

Answer:

The exact number of the exposure is disclosed in the March reporting.

Answer:

That would be about 5% of Apax IX rough on weight.

Question 2

Just about ThoughtWorks, I must admit after seeing the video I still could not understand what it really did and I am just wondering, in the old days would it have been called just an IT services business or a business that might have been spun out of one of the accounting firms?

Answer:

Yeah, so it does next generation IT Services. So it does everything from advise companies on their digital strategy. It will then help design the architecture and then it will build an application. So you saw the Delta Airlines example there. And that sounds easy, it is really difficult. And many of the legacy IT Services companies can't do it or they don't do it well. They are great at implementing your ERP but they are not great in this next generation innovative design of where you have to work really closely with the customer and you have to be agile. You have to really understand user experience. You have to understand all these new Cloud platforms and all the new technologies. So that is really where it plays if that hopefully answers your question.

Question 3

This is a question about the Tech fund really. If you are taking minority investments, how easy is it to roll out your digital playbook?

Answer:

Well in all cases we would have a Board seat and I think we would be one of the most significant investors at the table. In Solita we are majority as an example. In Wizeline let me give you an example we are a substantial minority there, I think we have got about 30 odd percent, but I have got a call this evening with the CEO who wants to talk about how do you do M&A in this space? What are the things you have learnt from other things. So because of our expertise, this isn't something where we are pushing. Management teams want it because it is like, well I would love to learn and please help. It is not something we go and we don't do this even with our majority things, but a play book where we just actively tell management what to do, that doesn't work.

Question 4

How many people are dedicated to Apax Global Alpha?

Answer:

We have a dedicated team on Apax Global Alpha of three people at the moment. Three investment professionals. They are overseen by me on a day to day basis and Nico is also very closely involved in terms of evaluating and analysing deals on an early basis. Now as you know those three people essentially focus on the day to day. They provide support to our sector teams. So really the resource space beyond that is the entire sector team and also importantly, our Capital Markets team.

Question 5

Hello again. I wonder in the situation like So Young app, I am guessing there must be thousands of apps out there to pick from. Could you give us a little bit more an idea of how you pick them because I am sure, like I said, I cannot imagine that there are not like thousands of apps that have like maybe a million users who are all going roughly there. So is it because you did mention I think that you know they are people getting Botox very young. Is that a combination of a digital plus their actual market is a good market to invest in?

Answer:

Yes I think, that is a great point. We are looking for markets where you get a winner takes most type dynamic and I mentioned the network effect that takes place. So the more users you have on your platform, the more the practitioners, your beauticians, your dermatologists etc. need to be there which drives more traffic which drives more reviews, which drives more. So actually there are only two that are pulling away right now and in fact So Young is pulling away ahead of the number two. Now they have also got competition from Baidu, the Chinese Google. You can do a search, that is an alternative. But in terms of marketplaces, whilst there might be lots and lots it is a long tail. But there are two dominant players with this one really pulling ahead and that is what we look for, really that network, that winner takes most. Because in these sort of businesses the returns to the leader are huge. It is important to be number one or two.

Question 6

Once the digital fund is fully invested, how large do you expect the exposure of Global Alpha to be to it and how do you decide on position sizing in terms of your allocation to funds such as that as opposed to the Global funds?

Answer:

The total commitment that AGA has made to the Apax Digital Fund is 50 million dollars. So the ultimate NAV exposure will obviously depend on value accretion in the Digital Fund versus the rest of the Portfolio. Now the way we decide on, make the recommendations on sizing of these LP commitments is essentially we look at a longer term projection of the fund where we try and model expected returns and what the fund proportions are. And we are aiming at achieving a 50:50 balance between Derived Investments and the Private Equity Portfolio. And as these new funds come along essentially that is a key driver of making those allocation recommendations.

Question 7

You talked about valuations and I just wondered if you could give us a bit more of an idea of how many deals you are kind of turning away or that you are not involved with as function of the valuations that we are seeing at the moment?

Answer:

Thank you Lucy, good question. The review in the Approval/Investment Committee for the Private Equity Funds, the reviewing for the Global Private Equity Funds, we are reviewing about a 100 deals a year and we are doing about 5-10. So the knockout rate is very high. I would say that price is probably the second most important knockout factor. The first one being business model or just too shitty a business. The second one is being price. Because once we have, and one of the initial committee rounds on a deal decided that the business in principle is kind of good enough so to speak or good, then typically price becomes the number one elimination factor. I don't know about the numbers of deals we are reviewing in Digital, I think in AMI for example we are probably reviewing about 15 deals a year and we are doing 3. So there is a lot of weeding out.

On the Derived side, I would say we are reviewing, do you have the numbers? Assume 50 opportunities a year and we do 15 or so because they are already pre-screened typically in the Private Equity side of the house and then only the better ones come through.

Further question

And on the private side how does that knockout rate compare to say 5 years ago?

Answer:

I don't think it has changed materially. I don't think we are reviewing more deals these days to get to one hit than we used to. I think if anything the knockout rate has come down because we are more selective already at the beginning of the funnel I think we are more, if you look at Apax 10 years ago I think if we looked at kind of more different businesses and maybe a little bit more opportunistic around things. Now I think our kind of pre-filter is already set around the stuff that we really understand and I think we are more picky to begin with.

Question 8

Are we likely to see any other noncore funds from Apax?

Answer:

We are always thinking about business development opportunities. I think for Apax Global Alpha, I think odds are that we are going to stick to the exposure that we currently have in the follow-on funds to those. I don't see anything suitable for Apax Global Alpha in the funnel in addition to what we have. The kind of fund families. So we would assume that obviously Fund X, the big Global Fund will come to market in I assume 2019 so Apax Global Alpha would I assume, it is obviously a decision of the Board. I would assume that there is going to be a commitment to that. I think the second generation of the Israel Fund, provided that the returns will be sufficient of the first one which is checking out and I think everything points to that happening, there is going to be a second generation commitment to that as well. And I would assume that whenever the Digital Fund comes to market again we will consider a commitment to that. Beyond that I don't necessarily see anything coming up now.

Question 9

Would you buy any secondary interests in any of the Apax Funds should they come up? I can't remember whether the funds have restrictions on it?

Answer:

Yeah we would absolutely consider it. We have done it actually in the financial crisis or when we saw that there were significant discounts applied to secondary stakes that would make. And we obviously understand the underlying Portfolio very well and that would make an interesting deal. Yes we have done these deals. And one example in a way is also that Apax Global Alpha has bought, carried interest stakes in Apax Funds from let's say Apax Alumni who for some reason needed cash. And we generally feel that these opportunities can be very attractive because typically discounts to net asset value are fairly high in particular for the more exotic type of stakes like these carried interest stakes because there is no real transparent market for those. For the more ordinary secondary stakes, I think there is a very transparent market today and so generally I don't think that the current market allows for great deals. But whenever some crisis hits and people want to get out of these relatively illiquid stakes quickly, there might be an opportunity coming up or these more structurally liquid situations where there is no market for like the carried stakes, we would absolutely consider that. And we have done a few deals in that space and they have all been between very successful and extremely successful.

Further question

Those carry stakes, how much of NAV would they be?

Answer:

I think the current carry stakes are about 30 million of NAV, but I am sure we can get you the concrete number.

Further question

Thanks. Sorry while I have got the microphone one other question. Do you have the performance record of the various components of the Portfolio since IPO?

Answer:

I think so, yeah. I mean we are definitely publishing the stuff since IPO. I don't know how detailed you want to be, but actually we were also thinking about actually providing transparency on each and every deal and I think we have done this for the larger deals.

Further question

Obviously in the Presentation you have got the last 12 months, I just wondered whether you had anything, a similar breakdown going back to IPO?

Answer:

What we have disclosed on a Quarterly basis is the performance, I don't think we have provided a comprehensive overview yet on the performance per sub-Portfolio since IPO, but that should be relatively easy for us to produce and let's consider it for the Interims if we can just include it in the Appendix so you have it.

Questioner

Thanks.

Question 10

In the Digital Fund, what sort of range of leverage would there be for the buyouts?

Answer:

So obviously minority grows nothing those are all cash. If we take Solita as an example, that would be 3-4X, these are fairly moderate leverage investments. We are probably not going to do the 6 to 7 times type leverage.

Question 11

Just on the minority growth investment, how do you structure those deals for exit?

Answer:

Well it depends, there isn't a one size fits all answer. Obviously it is something we are hugely cognisant of. If it is a founder who this is going to be a problem with, we have got to have negotiated exit rights. Things like drags or rights to sale or IPO or things like that. We also try and structure preferred instruments as well. And sometimes those have redemption elements which forces the people to consider potential exits. But it is something we are obviously very cognisant of to make sure that we can get out.

Question 12

About the FX. Do you think that there should be, I am not saying hedging because I am not sure it makes any sense, but any other ways to hedge the FX exposures?

Answer:

Yeah, I mean we have been looking at this repeatedly and we have also been discussing it with the Board. When we went IPO we basically told people they were going to get exposure to kind of a Global Portfolio not only of companies, but also implicitly of currencies and that is the way it has developed and it is obviously created particularly in the past 18 months, some carnage because the dollar devalued so much. Now in the past 3 months I think we have actually caught up on some of that and you haven't seen that in the numbers yet, but I am sure that will come through.

So eventually we have actually also asked investors on and off whether they want us to kind of hedge and eventually the vast majority of investor feedback was, look we know it is very difficult, we know it is expensive and we would rather not have you do it and do it ourselves if we wanted to. I think there was probably two-thirds to three-quarters of people who were basically giving that answer.

But it is a problem, it is not just for Apax Global Alpha a problem, it is also a problem for the underlying private equity funds because they are global funds. I don't think it is great obviously the way it is but unfortunately I don't think there is any better solution either.

Question 13:

Could you refresh my memory on fees? In particular I am interested in what parts of AGA generate carry? And a related question to that is how is carry paid out?

Answer:

Yeah, so I mentioned earlier that the number one fee principle is no fees on fees on a look through basis. The Private Equity Funds charge fees which are generally 1.5% management fee and 20% carried interest subject to a hurdle of 8. And that is entirely paid on the Private Equity Fund level, i.e. nothing of that kind of really becomes visible on the AGA level. So it is all happening in the underlying Private Equity Funds.

On the AGA level we charge fees of 1¼% on Derived Investments, not on cash. And as a performance fee which is kind of I guess the equivalent of the carried interest, we charge 20% also subject to a hurdle of 8 and that is based on a realised investment model and the hurdle is applied on an annual basis. So only when we kind of generate more than 8% we will pay a 20% fee on realised Derived Investments in a certain financial year.

The carried interest model of the underlying funds is that in the Global Fund and in the Apax mid-market fund we have a European waterfall which means that the Fund has to be repaid and the hurdle has to be repaid back to investors before any carried interest is charged.

Salim how is it in the Digital front?

Answer:

There are two sorts of carried interest waterfall. One is the European waterfall and one can pay out on a more deal by deal basis. But in effect I think it works out fairly similar just given the hurdles you have to jump through. So we are not expecting large carried interest payments on Digital in the next few years.

Further question

So are there any restrictions on the payout of carry to your employees? For example do they have to reinvest in the stock or are there any liquidity issues or stay issues?

Answer:

So we generally have the rule on the Apax Global Alpha level that performance fees are being paid in shares of Apax Global Alpha. For technical reasons entirely or regulatory reasons we could not follow that rule in the past couple of years. But we will as these reasons have fallen away recently, we will pay performance fees going forward in shares of Apax Global Alpha.

In the underlying Private Equity Funds, I don't think the question is really applicable because as I said most of them, or almost all of them are in terms of European waterfall so basically every dime that has been invested by investors has to be returned prior to any kind of performance fees being paid out and those would be in cash as the returns to investors will be in cash.

Further question

Thank you. So switching gears, what if anything has surprised you since the IPO 3 plus years now? What out there has worked better than you thought, possibly worse than you thought and where do you stand looking forward, what are your expectations for the next few?

Answer:

Let me tackle it kind of asset class by asset class and then maybe touch upon the more administrative issues. I think we would have been probably expecting higher returns on the Private Equity side. And I think the reason why we haven't seen those in the past have been mentioned before. That we had unfortunately made you know 3 or 4 investments in the vintage around 2015 particularly in US retail, but also one other investment and they have underperformed and so overall I think our Private Equity performance has been dragged down a little bit by that. I don't expect that to be the case going forward. Visibility, a little bit obviously on that. And I think that will be rectified. On the Derived Investment side, I think we have been happy generally with performance both on credit investments as well as on Derived Equity or listed equity investments. I think on credit, the one lesson learned is that we have taken away, is we will be more careful of investing in Apax Private Equity opportunities i.e. we will be more careful investing in credit securities of our own private equity owned companies going forward. Because I think we in the past had a bias to think too much in terms of when it is a private equity, a good private equity investment it will also be a good debt investment. I think we have gone away from that and actually performance since we are a lot more restricted there has also improved.

I think with credit investments in non private equity, non Apax Private Equity opportunities, we could not be happier with their performance, I think we are actually doing better than we what we anticipated. And I think the big highlight has been that we actually found out that we are actually very good listed equity investors. If you look at our performance there it is staggeringly good. And I think that kind of doesn't mean that we are kind of good traders, I think it means that actually a lot of lessons learned from the Private Equity Investments can be applied to listed equity investments as well very successfully so.

So that is kind of my review on kind of the investment making side. And kind of also that reflects all the investment making processes. I think with regards to the more administrative side or I guess the listing related side maybe I will hand over to Ralf.

Answer:

Well what should I say. Being in a listed environment is different than being in a private environment. I think we have learned that. I think there was a lot of work that our non investment teams have put into us getting to where we want to be in terms of running the Fund as a listed Fund. We have also always told investors and IPO that our objectives in terms of running the Fund is to want to be seen as best in class in terms of how we run it, how we report it, the transparency that we provide. That is our aspiration, that has been a lot of work. Hearing some feedback obviously from you if you ever feel we fall behind that ambition you should tell us and we will put the necessary work and effort in to ensure that we achieve that objective.

Nico

Kirk does that address your question?

Questioner

Yes thank you.

Closing comments

Any more questions? Well in that case thank you very much for attending and asking all those thoughtful questions, it is very much appreciated. Have a great day.

End of Presentation