Investor Day

Wednesday, 24 May 2017

Tim Breedon
Chairman, AGA

Okay, we are ready to get going. Good morning my name is Tim Breedon and welcome to everybody, to Apax Global Alpha's second Investor Day. Thank you very much for attending. And just to remind you that today's presentations are all being filmed.

In response to feedback from investors, we have reduced the number of Presentations this year and we will not be covering the same number of sectors and individual investments. Instead we will be concentrating to a greater extent on strategic issues for the Company and on market background. We hope to finish with a Q&A Session at about 11 am. Thereafter Ralf Gruss and Nico Hansen are happy to use the extra time to meet investors on a one to one basis. There are a few half hour slots remaining this morning, once we have finished the Presentation, so if you would like to put in for one of them please let Sarah know if you would like to meet either Ralf, Nico or both of them or indeed myself after the meeting.

So how has the Company performed over the last 12 months? First you can see there has been a substantial narrowing of the discount to the 5-10% range, albeit still on relatively low trading volumes. The Board monitors the discount very actively and aims to understand and address the factors which drive it. Second, the Company has continued with its policy of paying 5% of NAV via two semi-annual dividends. So the latest 6 month dividend paid on 4th April was 4.13p up from 3.69p the year before.

Third, there has been a very substantial increase in the share price. Total shareholder return on a dividend paid basis was 35.8% in the year to 31 March 2017. In addition to the dividends and the narrowing of the discount, the TSRs profited from the weakness of sterling versus the Euro, just to remind you that the Euro is our base currency and through NAV appreciation as a result of investment performance. The contributions for each component were as follows: that is 6.4% for dividends, 12.1% for the narrowing of discounts, 7.1% for FX and 10.2% for investment performance net of charges. And Ralf will be providing more detail of performance in the next section.

Every year a number of shares are released from lock-up. In the past through its brokers the Company has made available a mechanism whereby previously locked up shares can be placed in the market in an organised way through a book build. We will be aiming to make a similar arrangement available in June this year with the next lock-up release. But of course how many shares will be involved will depend on the level of take-up by affected shareholders. It must be said it wasn't very high last year, we continue to have some very stable long-term shareholders.

This year's lock-up release however will be a very significant one for the Company. It will take the free float in the Company's shares to over 50% and make the Company eligible for inclusion in the FTSE UK index series later in the year. We hope that this will be a positive development for the company in terms of improved liquidity and in widening the investor base.

So unless there are any specific questions for me at this point, I will hand over to Ralf to cover objectives and performance in more detail.

Ralf Gruss
Chief Operating Officer of Apax Partners

So thanks Tim and good morning everyone. I would also like to extend a warm welcome to everyone here in the room and all those listening in on webcast today. Thanks also for my side for joining AGA's Investor Day today. My name is Ralf Gruss, I am the CEO of Apax and I am also a member of AGA's Investment Committee.

What I would like to do in my Presentation is to talk you through a review of AGA's investment objectives and performance that AGA had over the last 12 months. And the key points to note here are AGA is executing in line with its strategy. The fund is on track to achieve its investment objectives. Looking at the returns over the last 12 months they were good, although they were a little bit behind our long-term target returns. And I am going to talk you through those points in a bit more detail.

But let me start with a quick recap of the investment strategy first. Now most of you will have seen this chart before so I just wanted to do a quick recap here. What is AGA's investment strategy? Now AGA provides shareholders access to investment opportunities identified by Apax. This is achieved in two ways, first AGA invest in Apax private equity funds and therefore US shareholders indirectly own stakes in the private equity companies that Apax invests in. Beyond that AGA also invests in derived investments. Derived investments are identified by us and those are the deals that do not affect the strategy or mandate of our private equity funds. And the derived investment portfolio therefore mainly consists of debt and minority listed equity positions.

Now there are three important elements on the derived investments. First is they all leverage inside the gain as the investment adviser with an objective to generate attractive returns. Secondly they are more liquid than our private equity investments and therefore they allow the fund AGA to operate on a fully invested basis as the derived investments serves as a buffer of cash. And third, especially the debt derived investments generate stable and recurring income yield supporting the dividend that is being paid to the shareholders.

Now AGA aims to keep a balance between private equity and derived investments. This is however another benchmark against which the fund is managed. The contribution of private equity and derived investments can swing around the 50:50 mid point over time. Now with this investment strategy and you can see on the chart how it builds up AGA target returns 12-15% over the cycle and the fund aims to pay a 5% dividend return to shareholders on an annual basis.

Now with that let me briefly show you how AGA's exposure to private equity and derived investments has moved over the last 12 months. What you see on this chart here is a split of the portfolio by asset type, sector and geography. The inner circle is 2016 data and the outer circle is 2017 data. Now with a bird's eye view on this portfolio just a couple of points I would like to highlight. The first one is, as you can

see the mix between private equity and derived investments is consistent with our objective to keeping a balance. Private equity has increased slightly to 53% over the last couple of months, but I will talk you through the drivers of this later on in my presentation. If you look within the derived investments you can see that the equity investments have increased their relative weight in their portfolio. For those of you who have listened into our earnings calls over the last year, you might remember that I mentioned listed equity showing more interesting risk return trade-offs in a number of deals that these evaluated. So the increase in derived investments that we see in the portfolio is a function of that investment you take.

And in terms of sector split, Tech and Telco is the largest exposure present, it has historically been a strong sector for us. Healthcare has increased in terms of portfolio weight to 22%. There are a number of investments in healthcare recently, including Unilabs, Invent Neuraxpharm, Vyaire Medical on the private equity side and Leva Nova and Kepro on the derived investment side which has been driving up that share.

And lastly just quickly turning onto the geographic split, investments in Europe and the UK have increased on a relative basis. Again coming back to the earnings calls we had last year, we discussed Europe becoming more investable and this increase reflects the high end investment activity that we have seen in Europe compared to the US on a relative basis during 2016.

Now with these introductions on where we are from a portfolio perspective, let me move onto a discussion on how AGA is doing against its investment objectives. Just as a reminder AGA has five investment objectives. The first one is to provide an attractive net return of 12-15% over the cycle to shareholders. After all that is the main reason why you want to invest into AGA. The second is for AGA to distribute 5% of NAV on an annualised basis as a dividend. The third is to remain fully invested. Now that does not mean obviously that there is no cash in the fund at any point in time. I mean clearly timing of cash flows or of use in market valuation can cause AGA to carry some cash. This is much more around AGA not structurally needing to carry cash as a buffer for private equity, given the liquid nature and HR of the derived investments that we have in the portfolio.

And the fourth of the strategy of AGA to invest in Apax funds so this allows shareholders to continue to have exposure and to participate in the private equity activities of Apax. And last, as I touched upon before, AGA aims to maintain a balance mix between the two private equity and derived investments.

Now what I want to do in the rest of my Presentation is just step you though each of those objectives and explain how AGA has performed in all of these five areas in the last 12 months. And I would like to start with returns.

Now on returns over the last 12 months, you know the total NAV return of AGA was 10.2% and as you can see from the bridge there are positive contributions from all our income, realised gains, unrealised gains and also foreign exchange. And as I just mentioned the positive income contribution was mainly driven from interest earned on the derived investment portfolio, the debt portfolio. The realised gains and unrealised gains together contributed 5.2% of total NAV return. But taken all together you know the 10.2% return over the period is obviously not unattractive, it is attractive, but it is slightly below the longer term target returns of AGA.

I will dig into the contributions to returns from the various portfolio components in more detail in a second, but there are two observations I want to highlight here. The first is we observed good performance from the private equity portfolio on the derived equity

portfolio. However in the derived debt portfolio we had a drag on returns over the last 12 months predominantly from the underperformance of three portfolio companies and that is the observation I want to leave you with.

Just quickly on currency, as you can see on the chart, the currency gain is mainly due to the appreciation of the US dollar against the Euro, about 59% of AGA's investments were in the US dollar which reflects AGA's global investment strategy. And as you know, AGA does not hedge its currency exposure, so you see these movements on total NAV return.

But now back to the individual parts of the portfolio and I would like to start with private equity. Now the adjusted NAV of the private equity portfolio increased to €484.3 million over the last 12 months, €58.4 million were invested into the private equity portfolio during the period and that is mainly due to calls from Apax VIII in relation to investments that were made in engineering, Invent Neuraxpharm, Duck creak and Vyaire Medical and we have discussed all of these investments already in prior earnings calls so I won't cover them now in any more detail.

I have already touched upon realisations. These returns, €61.4 million to AGA during the period. Most of these realisations came from portfolio companies in which Apax VIII has invested. So it is good to see that their realisations coming through from that fund already despite the average age of Apax VIII portfolio companies still being very young.

Now the rest of the distributions that make up the balance here is coming from Apax Europe VII and also some cash coming back from the smaller investments that AGA has in Apax Europe VI and in our Israel mid-market fund AMI.

Now from a return perspective, you know these full and partial exits during the last 12 months generated attractive IRRs. You know average cost IRRs were 23.6% on these exits and they were all realised in terms of valuation at an uplift of 24% to the last unaffected carrying value of those companies. So some very strong performance from exits out of the private equity portfolio.

Now looking at the fair value movement of the portfolio, it contributed €28.5 million during the year. Just to highlight the strongest performers in the portfolio, so you have the names. Sometimes in absolute Euro contribution these were Azelis, Shriram City Union and Assured Partners. Again we have covered these companies before.

However, like in every portfolio, there were also companies which had a weaker performance and in our case the three weakest performers during the period were Answers, Full Beauty and Rue21. Both Answers and Rue21 have gone through or are now restructuring and as a consequence the equity value of these investments was written down to zero at the end of March. The equity investment of AGA in Full Beauty so that you have the number is valued at €13.6 million.

Now let me give you a bit more colour around the activities in the derived investment portfolio and I want to first cover debt and then move onto the equity side of the portfolio.

Now on debt, the key message is the difficult performance of the three companies that we just talked about, Answers, Rue21 and Full Beauty, in which AGA also invested on the derived debt side, has had a drag on performance. But let me step through the various drivers of value first before getting back to those three companies. I mean first of all there was a positive contribution from income and realised gains in the

period. You can see the income contribution of €30.4 million on the right hand side of the chart. Income is obviously a very important contributor to performance of AGA's portfolio. I mean it is technically not in adjusted NAV that is why we are showing it here as an additional bar. The main driver here are the 19 debt positions that AGA currently holds in the derived debt portfolio, which have an average income yield of 9.8%.

Now in terms of realised gains, you know again there was a strong performance during the last 12 months. You know AGA realised 11 debt positions with total realised gains of €14.9 million. The average value weighted IRR on these exits were 16.8% so well above the target returns if you are trying to achieve on the debt side.

Now the strongest contribution in terms of absolute value again you know highlighting the biggest value movements year-to-year was delivered by Ellucian, you know two transactions that AGA did in Acelity, a healthcare company and Compuware. I will talk you through the Ellucian deal in a bit more detail when we cover recent investment activity later in the Agenda. So I am going to skip over that at this point.

Now to the three portfolio companies which caused the majority of the drag on performance during the last 12 months. As I said, these were Answers, Rue21 and Full Beauty. As a reminder on Answers. You know Answers financial performance will have suffered because of its social content platform being impacted by algorithm and pricing changes by the likes of Google and Facebook. This has created liquidity challenges in the business and the company has resulted in a Chapter 11 restructuring. The NAV of AGA's derived debt investment at the end of March was €9.2 million. And since Quarter end Answers has emerged from Chapter 11 and AGA's debt holding has converted into new second lean debt and equity instruments issued by Answers which AGA now holds.

Full Beauty and Rue21 are both operating in the US apparel market and it is a market which you might know which is generally weak at the moment and this has impacted trading both for Full Beauty and Rue21. Rue21 is a discount retailer, has also recently filed for bankruptcy and is currently working to improve its capital structure. AGA's debt investment was valued at €4.2 million at the end of March in that position.

And lastly Full Beauty, as you might remember it is the direct to consumer business focused on the plus size segment in the US. It has also not been immune from the headwinds impacting the sector at the moment. The recent financial performance has been disappointing. However from a derived debt investment perspective, I would like to highlight there is a level of downside protection here in the instrument as it is accruing interest at L+900 means there is an offsetting effect from the interest income we are generating and this has helped to limit the losses we have seen. The NAV of AGA's investment in the Full Beauty debt is currently €25.1 million.

So you know these positions, as the AGA Investment Committee, we have taken a step back in light of the performance of those three. From our perspective the key learning here we have drawn is to focus even more on the credit quality of the underlying business, especially in those sectors that can be volatile and where the Apax funds have also invested in the equity, more from an exposure perspective for the AGA.

Now with that, let me move to the derived equity investments, where we have seen some strong performance over the last 12 months. First of all on this chart, what you can see again is that new investments are exceeding the disposal of investments.

This reflects the increasing share of derived equity in the portfolio which I have already shown you when we talked about the portfolio split.

In terms of returns we have seen a positive contribution from realised gains and income. The strongest performers in the portfolio during the period were our Indian Financial Services investment Chola. Another Indian Investment, LIC Housing and Sinopharm the healthcare distributer in China. And you can see the key value statistics here on the page all the very attractive deals for us.

Now just a quick comment here on why you are seeing a foreign exchange loss here in the derived equity portfolio whereas in the rest of the portfolio you are used to seeing currency gains because of the dollar and dollar Euro movement. The main reason here is AGA's investment in Sophos which was entered into in February and April last year. The sterling has obviously significantly devalued against the Euro in the aftermath of the Brexit Referendum. And whilst there is some offset in currency effects also in the derived equity portfolio, these couldn't compensate the sterling loss that we have seen on that position. Now having said that, for those of you who follow the share price, the share price has performed very well so far so we are quite happy with this position despite the currency movement that we have had.

Now last but not least in our quick update on the existing equity portfolios so the one that currently is an AGA. The vast majority of the portfolio is held above cost and there are currently only four positions that are performing behind expectations. So overall on the derived equity side, the performance is fine, returns are good and the portfolio is doing okay.

Now we have covered performance of the portfolio over the last 12 months in quite some detail, it is obviously the most important part so I wanted to spend a bit of time on it. But I would like to return to the other four investment objectives now of AGA briefly. And where I want to start is with the dividend payments. Tim had already mentioned the last two dividends. The message here is you know we are fully delivered on plan since IPO. A reminder again the dividend strategy is for AGA to pay regular dividends at the level of 5% of NAV. The way the Board has implemented this is for AGA to pay two semi-annual dividends at a level of 2.5% of NAV. Now since the IPO, AGA through dividends has distributed €69.6 million of dividends to shareholders. The individual dividend payments are shown on the table on the slide and I am not going to talk you through them. With its dividend policy, AGA is providing a very attractive yield to shareholders and we also believe this helps to address the level of discount at which AGA is trading.

Now the third objective for AGA is to remain fully invested so that it can maximise the returns it generates by putting excess cash back to work in the portfolio. Here you see the total NAV broken down quarterly by asset type and you see the discipline that was employed to maintain the investment level of the portfolio above 90% since we deployed the proceeds from the IPO. Now a big benefit of AGA's portfolio construction is that cash return from private equity can't be invested in derived investment, I have talked about this before. And derived investments can be realised to fund calls going into the private equity portfolio. In addition to that and you don't see this on the chart, actually it is a bullet on the bottom right, AGA has a revolving credit facility of €140 million which can also be used for cash management purposes.

Just a couple of highlights here on this chart. Over the last quarter so you understand the trends and what has moved in the portfolio. The increase in private equity that you can see during 2015 is mainly due to the deployment of capital in Apax VIII. We had strong flows of cash coming back, realisations from Apax Europe VII and also some

from Apax VIII which I have taken this down again slightly during 2016. And at the end of 2016 the share of private equity has increased again. The main reason here is calls that we had from Apax VIII you know fair value gains and foreign exchange gains in the portfolio.

On the derived side you know their weight in the portfolio has fluctuated between 43 and 47% of NAV you know following the deployment of the IPO proceeds and again you can see there is the increasing importance of derived and equity since the latter part of 2016.

So we are nearly there now. The fourth objective for AGA to continue to invest in Apax funds. So we have summarised here as an overview the commitments that AGA currently has to the Apax funds. Now since AGA's IPO, Apax IX was raised and AGA committed 350 million dollars into that fund. And I am sure you have also seen this morning's announcement that AGA intends to commit 50 million dollars to the Apax Digital fund which is exactly in line with the strategy to make commitments to new funds raised by Apax Partners.

Now with regards to the Apax Digital Fund, I am unfortunately restricted for regulatory reasons to publically comment any further on this initiative at the moment. What I however can say is that technology and digital investing has been a focus area of Apax for many years and it is a platform that we intend to further build out. And in this context we had Dan O'Keefe, you know rejoin our New York office as a Partner late last year. Dan worked for us as an Associate in the late '90s and he brings a strong background in the technology growth investing and he will work very closely with our longstanding Partner, Marcella Juliani who has advised on a number of digital investments whilst at Apax. So there are a lot of interesting developments here at the moment and we will obviously keep you informed through our Quarterly earnings calls this year.

In terms of the other funds, Apax VIII is essentially fully invested now and the portfolio is in value creation phase. Apax IX is the fund which is currently being invested. Apax Europe VI and Europe VII are those funds where the focus is on crystallising value and realisations. And not to forget about AMI the Israel focused mid-market fund. AMI so far has made three investments and is currently 14% invested and committed.

Now the other message I want to leave you with is that we feel comfortable around the commitment levels that AGA has to Apax. You can see from the table on the left hand side that AGA has almost 590 million of resources available from cash. Its Revolver derived investments compared to unfunded commitments of €390 million to private equity funds. And in addition there is obviously also the value of €180 million which is currently invested in the Apax private equity portfolio.

So bottom line, AGA has since the IPO committed to new Apax funds that are being raised and it intends to continue to do so in line with strategy.

Lastly I will cover off how AGA is doing against the objective of keeping a balance exposure between private equity and derived investments. The current ratio is 53:47. I have already talked about this before therefore just to briefly recap again, the 50:50 is not a hard benchmark. AGA is not managed towards that on a quarterly basis, it indicates a longer-term balance, it is quite possible that this ratio might swing in both directions, it depends on investment velocity and private equity, but also the speed of realisations from the existing private equity portfolio, can have a significant influence on that. And recently you have seen a slight increase in the private equity portfolio,

you should expect this to remain a bit overweight given the attractiveness of private equity but also the recent commitment into Apax IX.

So I have run you through all the five investment objectives now. Let me just summarise for you before we move on to Nico's Presentation. Overall AGA is on track, despite 12 months obviously being quite a short period in light of the long-term investment style that AGA has. The total NAV return was close to target return, supported primarily from private equity and derived equity. AGA has paid dividends in line with its dividend policy. The portfolio has been invested above 90% since late 2015. AGA continues to commit to new Apax funds as they are being raised. And lastly the balance between private equity and derived investments has also remained where it should be so we can also make a tick here.

So with that and now that we have covered AGA's performance, I would like to hand over to Nico Hansen. He is going to talk to you about investment and market environment more generally and also highlighting where we see investment opportunities going forward. Nico over to you.

Nico Hansen
CIO Apax Partners

Good morning everyone. My name is Nico Hansen, I am the Chief Investment Officer of Apax and also a member of our AGA Investment Committee. Also warm welcome from me here today and thank you for joining us on this day that would otherwise probably tempt you to spend some time in the park!

So I am going to talk about how we view the current investment environment and some themes will obviously emerge that Ralf and also Tim have touched upon earlier this morning i.e. the asset classes that we currently favour and they are reflected in AGAs portfolio and also those asset classes which we think are going to be important maybe in the next 12-18 months of our investment horizon.

Let me start with a quick view on the public markets as an indicator of how pricey or potentially pricey asset classes are in the equity space. Obviously we are all aware of the fact that many of these markets, and these are essentially the markets Apax is investing in, have developed. Many of those markets are at or close to all time highs and I think that is the first sign of a not trivial investment environment because things are pricey and generally the world out there is pricey and that is kind of a defining theme, not just for equities, but also for credit as you will see in a minute.

Now how pricey are these kind of index positions on a kind of a valuation level? You can see depicted here the next 12 months PE multiples of different markets and in the black bars you see the 5 year averages here and with the notable exception of Israel by the way, we see that the long-term multiples have been or are significantly lower than the current price levels are and you also see that the most recent price levels here or the current price level if you wish, are amongst the highest in this period that we are monitoring. Another indicator for non trivial environment that we are operating in and that AGA and the Apax private equity funds are operating in.

In terms of private equity more specifically, relative to public equities you can see the long-term depiction here of the private equity EBITDA multiples paid over time in North America and Europe and the European bars are the yellowish ones and the North American ones are the turquoise ones. Again first quarter of 2017 as well as 2015 and 2016 have been marking high points in terms of long-term averages of valuations. And I would probably totally disregard the high European multiples here in

the first quarter. I regard them as an aberration statistically because relatively small sample set. But it still remains true that current multiples are high and we are forced to pay up for assets as the industry is. And we are obviously trying to find our niches but again it is not a trivial environment.

Now all of that is kind of happening before what half a year ago was actually a pretty volatile background from a political perspective. I mean basically in 2016 we ran into a number of interesting political developments, you know obviously beginning with the UK's Brexit vote. We had a number of issues. In Turkey we had a pretty interesting result after the US Presidential election and we had a no in Italy with regards to the Referendum on some constitutional changes. More recently actually despite this turmoil in 2016 I think political developments have been more benign for markets and have also been reflected in markets. We had a benign outcome of the French Presidential election, a small election in Holland I think was alright too. And I think the outlook actually is also a little more stable than what we have seen in 2016 because my expectation is that many of these elections here highlighted in the right hand side, are going to come out in a benign way, at least if you view that from a markets perspective and an investors perspective. And that obviously happened before a background of a new US administration which is always good for surprises, but generally I think the political environment is actually better in 2017 and maybe going forwards than it used to in a couple of years before.

Now looking a little bit more specifically as to where we find opportunities, and I am starting this from a background or starting point as a private equity investor where we are looking for opportunities, but that has direct implications obviously also for the derived part of the AGA investment portfolio here, most importantly the listed equity part. And here we have split the world or depicted our investment world in a plane of, on the vertical axis measuring the public markets in terms of expensiveness of PE multiples and on the horizontal axis, by factoring in a macroeconomic perspective i.e. the forecast of the next 12 months growth rates here for these economies. And if you just set aside all other considerations like politics, legal framework and so on and so forth in these countries, obviously the further you are at the bottom right of this plane the better it is from an investor perspective, the less you pay in a way for percentage of growth.

And you can see that these countries have all pre-distinct characteristics in their plane. Please set aside China which is a bit of a special case. I will touch up in a couple of minutes. But with regards to the rest of the countries, I think this plane is indicative for where we see the more attractive investment opportunities here. I think the most attractive investment environment right now is probably Israel and we find that reflected in good deal flow for our Israeli mid market fund where we had more limited deal flow I think in 2015 and 2016. But this year we are in the process of making two more investments in the next few weeks. And we are also earlier this year we made an acquisition for the global fund in the case of Sinha and Condella public to private, we executed on that will become a contribution to the Apax IX portfolio and I think all of these instances are indicative for what we find pretty interesting investment environment and particular this Apax niche of the global investment space.

Amongst the other countries we find Spain pretty attractive, we invested there last year with part of the Invent/Neuraxpharm deal and in 2015 with Idealista which is the largest Spanish real estate online portal and most deals have developed very nicely from an operational perspective and also from a valuation perspective that you find reflected in AGA's NAV development. And we continue to look out there for situations that could be interesting both for the private equity side of the portfolio as well as for the listed equity side of the portfolio.

You can see that from our perspective, the US is pretty pricey and maybe overpriced. It is a very investible market, there is a lot of liquidity and so we will continue to invest there, but generally on a relative basis, probably the European countries are a little more interesting right now. And then you find on the first spectrum of the horizontal axis in particular, obviously Brazil and India. India has always been an expensive market, but probably from a macro perspective is more interesting than it has been in many, many years. There are reforms coming through, it is a liquid market and we continue to look out for investment opportunities there both on the private equity side as well as on the derived listed investment side. And if you have studied our announcements over the past few years these deals historically have also become very important for our performance and we have generally had unlike many other private equity houses, positive experiences in India.

What is becoming more important, at least I was intending to say that until the last political rumble, is Brazil. We view that country as in the midst of a macroeconomic turnaround. Valuation levels have increased over the past two years reflecting that but are still probably on the interesting side and we are concurrently looking at three different opportunities in Brazil with our private equity funds which we find highly interesting and hopefully we will be able to make at least a couple of investments there in the course of 2017. We have not had a new investment in Brazil since 2010, we have only invested in Tivet. And so I think it feels like being about time to do that.

From a more kind of sectorial perspective and this is a slide we have been developing for the first time in this Presentation here, but you bet I will be using it in many different contexts going forward. This depicts the relative deviation of different sector PE multiples to their 5 year averages and this is from left to right in each of the sectors you know covering the last three years and a quarter. And again it is a deviation relative to 5 year PE multiples. And you can see I think reflected fairly well a few things. First generally markets are expensive and the benchmark here you see in those bubbles, this is obviously, about relative deviations, but you see the base benchmark in terms of the base PE multiple in those bubbles above the bar charts. The market generally is expensive. However, there are a few outliers which we are trying to exploit or not to tap into, exploit in the case of when the market is relatively inexpensive and I think we can say that about Healthcare in particular, Services and Consumer and we are trying to execute on transactions there.

And there are markets which are particularly expensive and the most notable one is software. And we have been ranting about that a little bit also in the Annual Report. We have been a dedicated software investor for many, many years. I think we were amongst the first of large private equity houses going very long software in the mid 2000s and we have been exceptionally successful in that. But in this current environment, we find that software is unbelievably expensive and it is going to be very, very tough to repeat those investment successes that are based on entry multiples from the 2000 and early 2010s at these kind of valuation levels and we have been omitting that sector lately.

If you look at the far end here of this chart, this is Digital and this kind of stuff comprising online, like our investments for example in Idealista that I mentioned before or the Boats Group marketplace and online marketplace for recreational water vehicles or you know historically Autotrader in the UK and Autotrader in Canada, stuff that we know and we find interesting. More recently the digital space has actually devalued and we used to look at higher valuations in Digital a couple of years ago when there was a lot of euphoria in the venture capital markets and also in the stock markets about the outlook. At that point in time it really felt difficult to make more

investments. Today I think it feels better and obviously the Apax Digital Fund that Ralf was mentioning earlier is a reflection of that belief and the reflection of the fact that we want to actually invest more in that space than would have warranted probably a couple of years ago and even a year ago.

Now moving from equities, PE and listed equity to the third asset class that AGA is covering and investing in, and here the news is worse in the sense that of all of these three markets in my view, credit, debt as a whole is probably the most overvalued one. Yields have come down very significantly this year depicting the European and American high yield spaces, but as you will see in a minute this is also true for loans more generally and I think Mark is going to touch on that a little later today, but I think that the debt space is probably the most difficult one to invest in right now. Yields are close to an all time low and our views are not reflecting the risks embedded in this asset class right now. This is obviously junky stuff, junior debt. And so are these yields appropriate for the risks here embedded in that? In our view only on an exceptional basis these days and before we go longer in credit with Apax Global Alpha we will have to see some sort of market correction. And it is reflected also amongst the derived investments as moving from a balance of 80% credit amongst derived and 20% listed equity now to something that is more akin to 66/34 and if it was up to me, I think that balance would probably shift in the next few months or few quarters towards more listed equities because credit is dam expensive and it is very difficult to find value there. Whereas in equities and listed equities, we tend to have more niches of value. We have emerging markets which are not kind of perfected and highly priced and we don't have these markets effectively in credit and so I think we will see more equity investments, a higher percentage of listed equities and a higher percentage also of private equity in our portfolio going forwards.

Now I have touched upon a number of country specific themes or at least valuation relevant themes earlier, but here in a kind of verbose summary of what we see. In the US or North America more generally, high valuation environment, good macro but still in this plane of PE multiples and growth, not an exceptionally good positioning. We have done deals in the US and we are continuing to do deals in the US, but they are typically in particular themes that allow us to somehow dodge these exceptionally high valuations. These themes are corporate carve-outs where we buy orphans which are undermanaged and where you have to pay up for them very often. At least you have a typically an uplift in performance, you are pretty much immediately or in the early days of a deal because these things tend to be under managed and by putting better management in and improving the strategies you get an immediate uplift or consolidation stories where just by buying things together and reaping synergies and reaping the valuation uplift that you typically have by doing tuck in acquisition which you buy for little money, 6,7 times EBITDA but then the thing as a whole is trading at 10 or 11, you have kind of immediate value generation there,

Europe obviously a more heterogonous landscape than the US, you see more pockets of value. I mentioned Spain, but you will also see the Netherlands for example which decoupled a bit from Germany about 5 years ago. Germany and the Netherlands used to kind of move hand in hand from the macro perspective. That wasn't the case about 5 years ago, but now that is coupling again and the Netherlands are growing more rapidly and we expect that to continue and we have done a couple of investments there over the past two years, so we like that country. And hopefully there is going to be some political stabilisation also in Italy, a little less clear, but generally more pockets of value in Europe.

And amongst the emerging markets, caution with regards to China. Actually a lot of micro, macro indicators like growth rates in particular industries, energy consumption,

passenger rates are suggesting that China is doing better relative to where it was two years ago and it is on that level. The issue we have with China is that the debt level in the economy and that concerns both Governmental debt and municipal debt, as well as corporate debt has been increasing dramatically over the past 7 or 8 years. It doesn't cease to increase and at some stage this will have to stop and we don't know when that is going to be the case, we don't know how that is going to be the case. My guess is it is not going to be looking very pretty at that stage. And so we are a little reserved here. We have some idiosyncratic opportunities that we have executed on. We invested in a stockbrokerage and securities firm recently, GTJA which you find on that slide here on the right hand side, but these are really idiosyncratic hopefully value opportunities.

And then generally we like Digital in China a lot and we hope to do more investments there because there is a migration of that economy from a kind of infrastructure investment driven to consumer driven economy and we find that probably best reflected in the growth of the online space, the online consumer space and also the online services space. But generally China an area where from a kind of top down 30,000 feet perspective we are a little cautious.

The other emerging markets and we count Israel here as an emerging market, are more interesting I think than they were over the past 5 years in each case. In the obviously it was huge macroeconomic growth and then also kind of some sectoral growth also in online and market is expensive, but we like it. We have a great team in India which is able and has been able to generate fantastic PE opportunities, but also fantastic derived investment opportunities, listed equities opportunities which we continue to view as important for AGA.

Similarly our office in Israel has been tremendously successful in private equity in particular and they are now given this tool of the Apax mid market fund that enables them to do more deals there and we believe will be accretive.

And then last, but not least, Brazil where we haven't done a whole lot in the past 5 or 6 years, but where we see now opportunities emerging that hopefully allow us to make a couple or three investments in the course of this year which should be accretive in the long term.

Summarising the whole thing. Amongst the three asset classes that AGA is investing in, we view private equity probably as the most attractive one right now. The reason being that equities are expensive, but at least in private equity people are doing something to what they are buying, right. That is the season of private equity is to change, to inflict change in the target companies, change for the better hopefully and thus make reasonably high entry valuations palatable by operational improvement and so AGA has been gearing more towards the private equity side of the portfolio and I expect that to continue based on the current relative attractiveness of the three asset classes we are investing in.

Second, listed equities, not because they are inexpensive relative to credit, but because we find more niches of value there that allow us to deploy some capital, whereas the credit market relatively more homogenous because they effectively at least from our perspective only exist in North America and Europe and they don't really allow to go into the more interesting jurisdictions concurrently, but also because the long-term price level or the price level compared to the long-term in credit is worse than it is in listed equities.

So where to invest? Due to regulatory obstacles that I don't want to go into, I am basically as an individual prohibited from investing any more in Apax Global Alpha! So really forced to do something with my own money, I have been investing in other somewhat similar vehicles. And I hate investing in our competition, but that is what I did as an individual more recently. Whenever there was an opportunity to buy a Euro or a pound sterling or a dollar for 88 cents, through the vehicle of AGA I have made use of that myself and I have been purchasing whenever there was a kind of regulatory window, additional AGA shares. I personally view that as a best vehicle to put my own money, as a summary.

That concludes my Presentation with maybe a salesy note, but happy to obviously take questions on this now or later.

Nico Hansen
Private Equity

Okay, I thought I was through it. So the next part here is talking a little bit about examples in our portfolio and more recent additions to the portfolio, I am going to cover the private equity side and then Ralf is then going to tackle derived investments with debt and listed equities.

So in terms of looking out for the examples. This is the overall list of acquisitions we have done in 2017 with Apax private equity funds which obviously Apax Global Alpha has invested in or on the derived investments side. And you see here a number of names which I will touch upon in more detail.

Unilabs is a long-term investment in Apax Europe VI which we invested into originally I think in 2006, but we have reinvested now as Apax IX earlier this year. I will touch on this in a little more detail in a minute. Ten is a gas station chain in Israel, the largest discount gas station chain with tremendous growth and we bought this I think, relatively inexpensively earlier this year through the AMI Apax mid-market Israel fund. We signed a security brokerage deal as part of an IPO in China, GTJA and we bought a US based healthcare services company called Kepro which is providing services in the context of eligibility and cost reduction in the US healthcare system.

And then we have announced two more deals since the close of the third quarter. One is Syneron Clandela which is an Israeli headquartered, but kind of global company in medical equipment doing things such as tattoo removal lasers and body shaping devices based on energy. And then more lately, actually a couple of days ago, the acquisition of SafetyKleen, a UK headquartered Pan European business servicing the automotive and industrial industries with cleaning devices and cleaning services.

And then on the divestment side and you see the multiples or returns here on the far right of that, we, the private equity funds as well as AGA through an investment in its derived equities portfolio sold out of Chola at a very healthy return recently, the private equity funds, Apax Europe VI sold out of Capio entirely and then Apax Europe VII sold out of Ascential, in the course of selling down after an IPO of the company. And then a very successful deal we can touch upon in a minute also. We divested 50% of our stake in GlobalLogic to one of our limited partners at a five times return multiple, but I will go into some more details here in a second.

Now in terms of the two cases to have picked here as kind of exemplifying what we do as a firm, how we think about investments and hopefully also how we generate returns in the future. The first one is Unilabs, something that we bought in 2007 originally through Apax Europe VI, the 2005 Global vintage fund. And it is one of the leading

Pan European medical lab chains which is expanding in a space which is rapidly consolidating. The investment admittedly was sucking wind for 5 or 6 years in our ownership and it was largely flat, driven by regulatory changes in many of the countries where price pressure was put on services, lab related services that the company was providing.

We have in 2013 upgraded the management team and I think we have now found probably the best management team in the space which since then has turned around this company and returned it to top line growth both organically and through acquisitions we have made over the past 18 months, but more importantly also, we turned to bottom line growth as you can find depicted here at the bottom of this chart. And this kind of stops in 2016, but we expect healthy growth to continue both from a top line perspective as well as from a bottom line perspective here in 2017 and following.

And the value generation really here is through upgrading this management team which is industrialising in a way that the way of service delivery in this company and in this industry, making it a lot more efficient which is now also executing on the tuck-in acquisitions. We bought out one of the largest medical lab chains in the Czech Republic and the Slovakian Republic earlier this year and we are in the process of making an acquisition hopefully on the Iberian Peninsula as well this year and we believe that this is going to be a motor of growth also going forward when we can deploy basically the capabilities of that very strong management team and this idea of industrialising the space not just in the current footprint of Unilabs but also through add-on acquisitions hopefully at a big scale.

And Apax IX invested into Unilabs earlier this year alongside the old investment of Apax Europe VI when we bought out the core investors of Apax Europe VI here which date back to the original 2007 acquisition. And we hope to use that now bigger footprint that Apax and AGA have in Unilabs to create more additional value in the future.

The second example is GlobalLogic, a company headquartered in the US, but with its backend mostly based in emerging markets like India, the Ukraine, some Eastern European countries and is providing product development services basically for industrial clients in North America and Europe and product development here is specific to basically coding. And what they do is providing programming, coding services for companies which do not have IT development, coding development resources of their own and these are very often industrial companies for example. German machine tool manufacturers, industrial companies in North America, but also some IT companies outsourcing coding requirements to this backend delivery chain based in low wage economies such as India and the Ukraine.

And this space has been a hot spot of IT services in the past 3 or 4 years. Apax VIII acquired the company in 2013 at an EBITDA multiple of about 8 times and has grown the company both operationally as you can see at the bottom here, but also through some acquisitions. And this particular space, this coding space has also accreted very significantly over the past 3-4 years in terms of multiples attributed to it in the public space. And this is a private company, but obviously we use kind of public multiples as a benchmark and as a tool to value our stake here. And it has, this whole space has lifted up from these kind of low or high single digital multiples to know what is more in the mid teens and we have used both the operational performance here as well as this accretion in terms of multiple to de-risk our stake.

Earlier this year we sold 50% of Apax VIII stake to one of our limited partners at a whopping five times money multiple and a pretty healthy also valuation multiple. But it is I think an example for picking the right space, finding a niche of value and then developing a company which has been right in the middle of our fairway. We have been investing in IT services players for a long time, it is basically now probably in the Tech and Telecom sector, the most active sub-sector for us because software, as I mentioned earlier, is prohibitively expensive and unfortunately there are very few Telco investment opportunities, hopefully there will be some more in the future because it is a space that is reasonably valued. But right now in Tech and Telecom it is mostly IT services. We have run through that playbook here, that you can see depicted on this page a number of times in all sorts of different countries, amongst them was our last acquisition in Brazil which dates back to 2010 and despite what is going on in the meantime in Brazil, has been extremely successful and we are expecting to run that playbook maybe another few times in the next year or two and we expect us to be active in IT services again.

So that concludes my two private equity examples here for investments we have recently made. Obviously one also an exit, a successful one. Happy to take questions now or later and if there are no questions now, I will hand back to Ralf to talk you through some examples on the derived investment side.

Ralf Gruss
Chief Operating Officer of Apax Partners

Thanks Nico. So let me cover the derived investment, the recent deals that were done since the beginning of 2017 which you can see the full list here. Just to highlight the points before I go into some of the examples in a bit more detail. First of all if you look at the new acquisitions and included here, I should note that the investments that were done post the quarter end, you can see a total of 8 investments were done in derived equity and 4 in derived debt. So again highlighting the point we have touched on multiple times now of the relative attractiveness of derived equity against derived debt.

However secondly, the other point to highlight and despite what Nico just said in his Presentation of derived debt being highly valued at the moment. If you look at the exits that we have out of the derived debt portfolio, we had 4 exits out of AGA's derived debt with IRRs ranging from 10-48%. So pretty attractive returns realised here on the derived equity side, the IRRs were between 28 and 80%. The nets IRR is a bit of an outlier here, that is mainly because the holding period for nets was very short and I will talk you through this in a second.

Now a couple of words on some of the transactions, I don't want to cover all of them, given that we have talked about many of those already before. But I would like to focus on the ones that happened after quarter end. And I will also talk a little bit in more detail around DCB and Ellucian.

Now the ones that were done post quarter end are on Misys and Nets in terms of new entries. And on the exit side it is Nets, Fortinet and Unilabs and Kepro which were both realised after the end of March.

Now let me touch upon Misys first. You know what does Misys do? Misys is a provider of software to the banking industry, the main applications are in retail banking, corporate banking and capital markets. The company is owned by Vista and the opportunity for AGA came up when Misys refinanced and issued new debt as it was acquiring a public company called HCorp. Now the HCorp is also a software

business, so it is complementary acquisition, it focuses on payment technologies, lending solutions, core banking and solutions for other financial institutions. There is a difference between Misys and the HCorp in terms of geographic coverage. Misys is mostly a European business, the HCorp focuses on North America, so in terms of fit, it is quite a nice fit geographically.

Now what made this an interesting investment for AGA? A couple of reasons, first of all our Tech and Telco team knew Misys very well. So we had a very good understanding of the Misys business. Second, both businesses in terms of its business characteristics are a very defensible businesses you know software businesses, you know high level of recurring in revenues. And the combination of those two companies in addition created really globally diversified company software business with, in our view, significant synergy potential. In the light of that analysis we recommended that AGA should invest in the second lean and AGA bought a position when the debt was placed, it was actually quite a sizeable business and was a sizeable second lean, you know the size of the second lean is around 1.2 billion dollars. Not the one that AGA bought, but the absolute size of the second.

Now Nets, that is both an investment and an exit. So let me explain you why. The equity investment was identified by our Tech and Telco team here in Europe. What does Nets do? It is the market leading payments business in the Nordics, it was owned by Bain and Advent until they IPO'd it late last year. Now since the IPO the share price is going in one direction, which is going down. Now the thesis that we had developed around Nets was that of a valuation re-rating potential because Nets is a market leader and has very solid growth and at the valuation level that Nets was trading, from a longer-term perspective the precision of a market leader with solid growth did not stack up to the valuation that it was trading, I think it was trading at below 14 times per year at the time. Now AGA build a position in Nets based on this during April. Now then what happened is that the Company reported its Q1 results in early May and the shares suddenly started to trade up quite nicely. Now with the increase in the share price, the thesis that we had that over the longer-term with solid growth and being a leader, the valuation of the Company should re-rate, that would realise much quicker than what we anticipated. And therefore and despite the short holding period which is unusual for AGA, AGA sold the shares and realised the investment, again in light of the valuation move for us the thesis had largely played out and we didn't see any further catalysts coming down the pipe that would create another re-rating. So the recommendation here was for AGA to exit.

Now onto Fortinet. Again Fortinet is a security software company. AGA acquired shares in that in early 2016 when AGA invested in a total of three security software companies. That was at a time when valuation level had dropped quite significantly. Fortinet had started to invest in its sales and marketing efforts with a view to boost future sales. That hasn't come fully through yet to be honest. The share price had also dropped towards the end of last year, but has since then recovered and increased significantly and we have reviewed the situation and in light of how the business was performing and the fact that it was now trading at a much fuller valuation level, again our view was that there was relatively little valuation upside to be realised. And from that perspective AGA decided to sell.

Just quickly on the two dead exits. Kepro, Nico already mentioned this business on the private equity side. The situation here on Kepro was that we actually looked at Kepro already back in 2016 but then at the time the owners decided not to sell but rather recapitalise the business. And therefore for us having done the work, due diligence the business, an opportunity arose for AGA to participate in that recapitalisation and AGA invested in the second lean that was issued at the time. Now

at the later date the owners changed their mind and decided that they want to sell the business so the Apax funds could engage again looking at the business as a private equity transaction, you know acquire the business as Nico has explained and as part of that the second lean was repaid.

And Unilabs again, as Nico has already explained to you, what has happened here is they have made another acquisition buying a leading laboratory, labs business in the Czech Republic and Slovakia and as part of this they have refinanced their capital structure. AGA was invested in the pick notes and as part of that refinancing the pick notes will be paid.

So that is the investment activity on the derived investment side since quarter end. As we were meeting today we thought we will take the opportunity and talk you through the most recent updates in the portfolio.

Just a general comment on performance of the derived investments that were made since the beginning of the year. They are all off to a good start and especially in the derived equity portfolio we have seen some nice early performers.

So we have two case studies here which I wanted to go through in a bit more detail. The one is Ellucian, AGA's dead investment in the US which has already exited, the other one is a derived equity investment in a company called DCB, a bank in India.

Just to start with Ellucian first. We began a deal which was identified by our Tech and Telco team. It was identified in a structured exercise. So at the time, this was early 2016. We went through a structured exercise with our Tech and Teleco team to look through a number of software and tech credits that they had looked at before from a private equity perspective. At the time the markets had traded off. As you might remember, especially the Tech Sector was hit pretty hard and so we systematically went through those companies that they had looked at and they had a good understanding and this is how we identified Ellucian.

You know Ellucian, what does it do? Education focus software business headquartered in the United States, it is primarily US focused, but it serves more than 2004 institutions across 40 countries so pretty diversified business. What made it an attractive debt investment at the time? Why did we rank it at the top of the stack of all of the stuff that we looked at? A couple of things and first of all, many features you would like to see from a business in which you hold debt. Very stable customer base, sticky maintenance revenues. High switching cost for your customers, contracted price increases. You know little customer concentrations, all of these things fundamentally a very interesting business from a credit perspective.

And second, and I alluded to this already which triggered the exercise that we did. At the time we analysed the Ellucian opportunity, we saw tech credits trading off in the market in terms of pricing on the back of generally high leveraged in that sector. And a lot of new issues that has happened at the time. So within the market generally being weaker, the tech sector was especially hard hit in credits.

So AGA invested, deployed €26.5 million buying the senior unsecured bonds in 2016 second quarter. Now what happened afterwards was pretty much in line with our investment thesis. The company was performing well, at the same time the mispricing which was marketing sector driven, we identified, also disappeared with spreads compressing. You know we thoroughly reviewed the performance of the company again after they announced the 2016 results. From this work we still very much liked the defensibility of the asset that I just talked about, but we also revisited some longer-

term strategic topics such as the relevance of Cloud solutions and these types of things again. And from that analysis together with where the credit was priced you know our analysis suggested that there is very limited pricing upside and therefore we recommended AGA to sell its position and that generated 90% IRR on this deal with a total gains and income of €5.1 million on this investment so that was a successful investment for AGA.

Now the other case study I would briefly like to cover is on DCB Bank. What is DCB bank? It is a financial services business. It focuses on SMEs and retail customers, private sector bank in India. Just to give you a bit of a sense of the size of the business that we are talking about, when we discussed the investment, the market cap was around 700 million dollars so not huge. It had a loan book in the north of 2 billion dollars and a fast growing bank having grown advances in net income, with roughly mid 20% growth rates over the last three years.

Why did we look at it? First of all our Indian team not only tracked the Indian banking market for a very long time and you can see a bit of a recurring theme here, done a lot of deals also in Indian financial services so they understood the trends in the market extremely well, particularly between private sector banks, public banks. It also has in addition to that, tracked DCB Bank for almost three years following its development. And the investment thesis we have were really a couple of reasons. First of all in terms of sectors, retail and SME focus banks especially the private banks are gaining share at the cost of the public sector banks so it is generally it is an attractive segment in the Indian financial services market to invest. Secondly, and that gave us a lot of comfort, DCB Bank is run by a strong CEO, he has led a strong turnaround of the business since 2010 and from our team following the business you know really had a track record of outperforming expectations.

And third, and this is really the key ingredient for us for this thesis why AGA invested. What DCB Bank did, it embarked on a strategy to expand its branch network quite rapidly. Now this has caused that there is currently an underutilised branch network because the newly established branches aren't at full utilisation levels yet and they still need time to develop their full profitability. So effectively what you have in the company is a temporarily inflated cost base. Now if you however are just for that Apax investment going into the branches and you look at the trading level of the shares, considering a branch rollout and them getting to full profitability as a temporary issue. Suddenly if you look through this you see that the valuation of the business was actually very attractive. And that together with us having followed the company, understanding the sector, knowing the CEO has caused us to recommend an investment for AGA into DCB Bank. So where is the investment? It is obviously early days but since AGA has invested we have seen an upward move in the share price and the company has also raised some additional capital so there seems to be confidence in DCB being able to deliver.

Now that concludes my part of the Presentation of the recent investments. I think we are breaking for a coffee now. I am looking to Sarah and she is nodding, before reconvening for two deep dive sessions. One is around, we have talked a lot about carve-out transactions as a potential way of doing transactions in a high valuation environment, so we have one example going into a bit more detail on how these carve-out transactions are being done. And then secondly Mark Zubko who is here with us today, is going to do a deep dive into junior debt and its attractiveness on the derived debt investment side.

With that Sarah, when should people be back? So let's do a 15 minute coffee break for coffee and then reconvene here. Thank you.

[Coffee Break]

Ralf Gruss
Chief Operating Officer of Apax Partners

So I think we are good to go again, welcome back everybody. We will now have two deep dives as I said. One into how we look at carve-out transactions as a possible approach to deliver deals in the valuation environment where valuations are high. And the other one is on junior debt opportunities.

Now for carve-outs we have used as an example a transaction in Vyaire Medical. Vyaire Medical is the new name for the even more complicated name, Becton Dickinsons Respiratory Solutions business. So it was renamed, it was carve-out by the Apax funds in 2016. Now the investment thesis for Vyaire really had four pillars, and the first, the Apax funds bought well in a carve-out transaction so an attractive multiple. The second is you know the company has significant margin improvement potential. And third, and this was many med tech opportunities, you know there is significant scope to grow the business outside the US. And finally the market is also very fragmented market so there is a lot of potential for accretive M&A.

Now the deal was led by our Healthcare team and with the help of our operational excellence practice, they have spent a significant amount of time executing on that complex carve-out and we are now going to play a short video to show you how that was done.

[Video insert]

Mark Zubko
Head of Capital Markets, Apax Partners

Hello, nice to see everyone today. My name is Mark Zubko, I am a partner in the New York office and Head of the Capital Markets Group, private equity business. I also work with AGA on the debt investing strategy. And as you have heard already today from both Nico and Ralf, generally we don't see a ton of opportunity currently in the debt investing environment. But I am going to talk about where we do see one pocket of value which is private debt.

A few themes in particular I would like to talk about today. The first is I would like to describe to you what I mean by private debt and how that differs from other sources of debt investment opportunities. Second, I would like to talk through some macro drivers of an increase in frequency of these private debt investment opportunities, which expect to continue. Third, I would like to highlight some pros and cons of investing in private debt. And finally I would like to share a few case studies of where Apax has been involved in this asset class.

So what is private debt? When we think about our private equity business, historically we generally raise debt through investment banks and you see this on the left side of the chart. So typically a private equity firm, whether it is Apax or one of our competitors, if we want to buy a new company, we call up a series of investment banks and we negotiate terms with them and we pay them fees to then go syndicate that debt out to a broad pool of investors, typically more than 100 investors we would talk to in a typically syndicated deal. That will be CLOs, bond funds, loan funds and in some cases also AGA.

I contrast that with the private placement market which has grown quite a bit recently. And so in this case you have capital markets groups within private equity firms that are directly engaging with very large debt funds, in many cases large wealth funds who have carve-outs for private debt. There are dedicated debt vehicles which are ten year duration vehicles which can hold very large tranches of the individual security. And in addition, funds like AGA.

So what are the pros and cons from a private equity perspective for these two types of financing? As it relates to a typical syndicated financing market, the benefits are obvious. In many cases a sponsor can go to a bank, pay some fees and the bank can run a broad auction, they can go talk to again literally in many cases more than 100 individual investors and drive that auction price to a relative low yield for the debt.

In addition when the syndicated debt market provides up to 100 lenders you also have a diversified lender base and that diversified lender base means during the life of the investment there may be more opportunity to raise additional debt going forward to fund add-on acquisitions or dividend recaps. That is the way the private equity industry used to raise capital, both ourselves and our competitors.

If you look at the last 5 years, that has shifted and it has shifted for a number of reasons, mostly for regulatory reasons which I will talk about in a second, but there are a number of benefits for a private equity firm to do a private placement rather than a syndicated deal. The most substantial benefit is in many cases the private placement market offers a private equity firm more leverage. And this is particularly true for the absolute best companies that are broadly diversified, that have recurring cash flows and have very little capex and working capital.

In addition there are some other benefits to privately placing debt. It eliminates market risk of the markets being volatile between the period of signing an individual financing and syndicating the debt. It also allows the sponsor to take the fees that they would otherwise would have paid to the investment banks and paid them directly to the lenders to give them excess return.

But coming back to the key driver of why private equity firms want to place private debt, it is the increased leverage. You heard from both Nico and Ralf earlier the debt markets are incredibly frothy and it is true we tell this to our private equity investors all the time. The debt markets are as frothy as they have ever been in the history of modern finance. And they have been that way for at least the last 6 or 7 years with some periods of market dislocation in-between, but generally speaking. And that has largely been driven by base rates being at or close to zero in every developed economy across the world throughout this period.

Despite that market froth, the syndicated market is continuing to offer materially less leverage today than it did during a previous market bubble. And you can see this in this chart. So on the left side of the page you see the leverage in 2007 in the US versus the average leverage level over the last 3 or 4 years, 15% lower. In Europe the contrast is even more dramatic with leverage levels almost 25% below where they were in the prior market peak.

And you can see this in particular as it relates to the regulatory environment. So this is a regime that has really been kicked off in the US in 2013 and has maintained for the last four years. It is also a regulatory regime that impacts US banks operating in Europe although the regulatory regime in Europe is at this stage a little bit less clear. The regime driven by the OCC and the Fed in the US, guides regulated banks to only syndicate that up 6 times total leverage. And also only up to 4 times first lean

leverage, a multiple of EBITDA proxy of cash flow. And so when the Apax private equity business or any of our competitors call any of these banks that you see down below, JP Morgan, Bank of America, and tell them that we want to raise syndicated debt to fund a buyout, what they say generally with some nuance is, we will give you something close to 6 times for the absolute best businesses. If you compare that leverage level to what is available on the unregulated financing market which is provided by some of the names that you see at the bottom of this page, for the best businesses again, highly diversified recurring cash flows, private equity firms can get materially more debt at reasonable price. Now the nuance here, while obviously more leverage allows private equity firms to generate more attractive equity yields on a private equity investment, the nuance as it relates to AGA's investment strategy is this unregulated financing option is currently less efficient in our opinion than the syndicated market. It makes sense for private equity firms to do this clearly because it generates more equity yield, but to privately place debt requires a clubbed up financing process where you can only go to a handful of lenders. And for that reason those lenders are generally able to negotiate slightly higher returns for that particular tranche of the capital structure. And you see this in this particular case which is indicative between 5 and 7.5 times leverage for junior debt in companies that are really very stable credits, represents in our opinion an attractive risk adjusted return.

You see some more evidence of this trend in the following page. The data on the left side of the page illustrates how much more debt has been privately placed in 2016 versus 2015. As you can see total debt placed during this period has more than doubled. On the right side of the page illustrates some fund raising. As you can see there has been significant fund raising to pursue this opportunity over the last 5 years. I would say that the fund raising rate of growth still hasn't kept up with the attractiveness of this opportunity which is another reason why we view this as an attractive opportunity right now.

You also see this in Apax private equity portfolio company, Capital Structures. So the next page what we have shown is debt syndications for a company that we own, or we previously owned from 2011 to 2016, called Epicor. And in 2011 this is an example of a typical syndicated deal for Epicor. We call it Bank of America, RBC. We negotiated committed financing, they went and talked to literally more than 100 lenders and the largest lender in that capital structure only provided about 5% of total debt. And the top ten lenders provided roughly a third. If you fast forward 4 years to 2015, same company, it had obviously performed very well during the period, but same company, same credit quality and the private placement opportunity represented a materially more attractive financing option for the private equity sponsor than the syndicated deal. It is also worth mentioning additional evidence here. The chunkiness of the lender group was much less diversified, because again these debt funds have become much, much bigger. So the ability to dis-intermediate banks has increased during this period.

Now there are both pros and cons of debt private placements and we should highlight them here. I think the first positive is generally speaking, these opportunities offer excess margin versus comparable debt opportunities. In addition, because these are what with prices, clubbed up financings, it also means the provider of capital, the lender has more opportunity to do direct PE style diligence. They are brought into the process much earlier than a syndicated deal where typically a debt investor only has a week or two to make a decision on whether to invest in a security.

This strategy is also generally counter cyclical, so during periods of market dislocation, private placement investments are able to put more capital work than during a frothy environment, which I guess actually is both a positive, because it

allows AGA to invest on a counter cyclical basis. On the other hand it is in some ways negative which is during periods of market froth such as today, it is harder to find these kinds of opportunities, because even though there is more leverage available to private equity sponsors, the cost differential between the syndicated market and the private placement market is even greater.

In addition these instruments are typically less liquid, not surprising they are privately placed with a smaller group of lenders rather than syndicated to a large group of bond holders. And they are also more concentrated bets which is again both a positive if things go well and a negative later.

Next page, you can see there are a number of examples of AGA participating in private placements, it is something we have been quite active in, although as you heard earlier from Ralf and Nico there have been fewer of these opportunities in the last few months, which is due to a reduction in the investment velocity on the dry debt side.

To take a deeper dive into a couple of these names. Vertafore which is an insurance brokerage software business was also a part of the tech review that Ralf mentioned earlier today regarding Ellucian. It is a business Apax knows very well. We have owned two insurance brokerages, hub and share partners. We also have been following software investments for a very long time, we know the company very well. This was financing in early 2016 and was privately placed by the capital markets team for exactly the reasons I am describing. They were able to get more attractive leverage from the private placement market than they would have from the fully syndicated market.

And what you see on this page is a number of characteristics that AGA liked about the opportunity. It is a highly stable asset, it was a relatively limited downside risk because of its cash conversion. The yield was above the comps, part of it was market dislocation, part of it was this private placement syndication dynamic. And then finally highly recurring cash flows.

One final case study, I will spend just a few minutes on, Epicor, this is again an ERP software based company based in Austen Texas, focused on the small and medium enterprise end customer. It is an Apax private equity investment from 2011. It was highly successful for the private equity funds, is now owned by KKR. And the second lean loan again was entirely privately placed. And if you look at the characteristics of this, that investment as well, it satisfies a number of the criteria we were talking about earlier. Highly stable company, very attractive equity cushion and very attractive yield relative to comps.

Key takeaways. We expect private placements to continue, we expect them to become more common, particularly as it relates to likely regulatory change in Europe, which we understand is coming over time and is likely to more closely match the US market. We recognise these opportunities create both opportunities as well as risks, but we expect AGA to participate in these types of opportunities coming forward.

With that I will put it up to any questions anyone has.

<u>Question :</u>
You mentioned that the private debt is less liquid, but is it still tradable? And is there a deep enough market to value the investments in AGA there or does it have to be done in a value as a level 3 asset basically?

Answer: Mark
So it depends on the individual private placements. If you look at some of the securities, there will be up to call it ten investors in the tranche, in which case there is some active trading. I think for the smallest, most liquid tranches there is less liquidity, there is no question. And that is something we spend a lot of time thinking about from an AGA liquidity perspective. And we also spend a lot of time thinking through valuation mechanics to make sure we have an accurate representation of those values.

Question :
Is there a difference in the length of the loan compared to a syndicated one?

Answer: Mark
Typically not. Typically it is a privately placed second lean loan in the US is 8 years, in Europe it is typically as well. There are a couple of instances where we have done 7 year tranches, but typically 8. There are also typically floating rate instruments.

Great. Well I guess with that I will wrap it up and invite Tim, Nico and Ralf up to the stage for questions.

Question and Answer Session

Tim Breeden
Q&A Session. Any further questions that we can take here regarding any of the items we have covered or indeed any of the items we have failed to cover?

Question 1
I have got a few so bear with me. So first of all when Tim said the comment made by Nico in terms of the derived debt and that being potentially less attractive going forward and therefore a lower proportion of the make-up of the fund or the company. Can you comment on how that would relate to the security of the dividend streams we can expect as investors?

Answer: Nico
Yes happy to. So first of all I think that is right and you see that also reflected in the current portfolio that probably the income stream is lower. There are two I guess comments I would like to make on your question. And the first one is that this derived equity is playing a larger role. We also have a higher velocity of turnover in the portfolio because the holding period for these investments are typically I don't know, maybe one to three years and in some instances actually we have been trading these for example in the case of Nets, when the investment season had played out within months, right. So the increase of turnover provides obviously the liquidity and as long as we continue to invest well, there should be not income to fund the dividend, but plenty of other gains generated in the rest of the portfolio.

The second is more of a top down comment. The AGA policy is to pay 5% dividend irrespective of the underlying income streams. Now obviously that is a policy, in extraordinary circumstances there may be a deviation from that and we can only spend a dividend out of the cash that we have, but that is the policy. And so I would think about this as a decoupled thing relative to the underlying income. As long as we continue to invest well, we will generate returns from the private equity investments, we will generate returns, gains in the listed equities portfolio and some income also from the debt which is currently less of the portfolio. And as long as we are not failing should be covering the 5% policy.

Further question
Thank you. In terms of the derived debt and also the private equity investments in the three companies you mentioned, I think it was Rue21, Full Beauty and Answers. What proportion of the NAV is that in Apax Global Alpha and how confident are you in the current marks given that they are struggling and retail is struggling in the US?

Answer
To be honest I would have to work out the percentage mark. I mean we have given you the NAV so effectively it is the sum of those NAVs over the total NAV of the portfolio. So we have the information and let me get back to you on that one, I can give you the exact.

Further comment
But in any case it is going to be very low today because it is all written down.

Tim
We can be very confident about answers.

Questioner
Yes indeed I am sure you can, I am sure you can.

Further answer: Tim
The valuation is zero, we are happy with that. The other ones, the Valuation Committee looks at these things regularly. The non executive directors attend as does the Manager as does the Auditor, the valuation committees. And our aim is to give an accurate but fair valuation of the assets, whether they are troubled assets or not. So you can see quite an active period of valuation marks that have been taken despite the fact that things have been happening quite quickly, but also despite the fact that some of these investments are significantly liquid. So the aim is to recognise the write-downs we have got to take early and that has been the experience which I think we have put in place under the supervision of the Board and the Valuation Committee over the period.

Further question
Thank you. And last question from me. In terms of the derived debt investments and the sort of my understanding is a lack of currency hedging on those coupons today. What is the thinking behind that and is there potentially going to be any evolution there?

Answer: Tim
At the moment the policy is to look at each investment in its home market on an absolute basis and to invest in the company and the home currency in the same way. Clearly many of these companies are highly diversified geographically. So the fact that they are US companies and priced in US dollars, not always wholly relevant here. But there is no doubt that because of the size of the investment universe in the US, we are likely to have quite an overweight position relative in US denominated securities relative to the 100% Euro which is the benchmark for the fund. So the policy is really to look at each individual item separately, to take the currency risk associated with that and not to hedge. The policy at the moment is not to hedge that exposure. All policies are clearly subject to review by the Board at any time, but at the moment this is one that we are pursuing.

Question 2

On a similar issue, on the fair value movements, it covers a multiple for different value drivers. Is there any plans to try and break that out a bit so that we have got an idea, a bit more about whether it is valuation multiples, earnings growth or write-downs?

Answer:
I can take that one. You might have seen in the Q1 results, we have already provided a bridge for the first quarter breaking down the private equity returns for amongst the key value drivers. I mean this is something which is on our Agenda to review how we can break down returns more clearly into those value drivers and we are working on this ahead of the release of our Interim Results in August.

Question 3
Are there any plans to increase the size of AGA?

Answer: Tim
Other than by investment performance being superior to dividend distribution, no plans at the moment so to do.

Further question
No further share issues?

Answer: Tim
No plans for a further share issue.

Question 4: [Webcast]
Mike Emam, Silverhorn
What is the mechanism of inclusion in the FTSE UK Index series and how quickly can this happen?

Answer:
The key criteria here are around domiciliation. Free float and liquidity. The domiciliation criteria we have provisionally had confirmation that under the FTSE methodology, AGA is UK domiciled on the free float we will hit the free float criteria in June and on the liquidity for the FTSE inclusion, they are going to look backwards over the last 12 months. But us doing the analysis over the prior 12 months, AGA has also met that criteria. So it is our expectation that with the lock-up release in June, we are eligible for the FTSE inclusion and will be included in the index family. Timing is the quarter after the criteria met, so it should be the September quarter.

Tim Breedon
Any further questions? If not we will wrap it up and thank you very much for attending.

End of Presentation