VALUE X VAIL
June 19-21, 2024

VEDDIS

PETERSHILL PARTNERS

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What we like:

- Growth at good value
- High margin of safety
- Idiosyncratic risk over systemic risk
- Simplicity over complexity
- Shareholder/management alignment

What we don't care about:

- Immediate catalysts - growth takes care of that
- Lack of volatility - volatility is a friend if you know what you are buying
- Quarterly/ yearly earning predictions - there are far more people interested in that

Where do we find it:

- Out of favour sectors/themes
- Near term concerns
- Lack of coverage

DISCLAIMER

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PETERSHILL PARTNERS

Petershill partners is a growth business with recurring revenues and high management alignment trading at a low valuation due to near term concerns

Key Numbers:

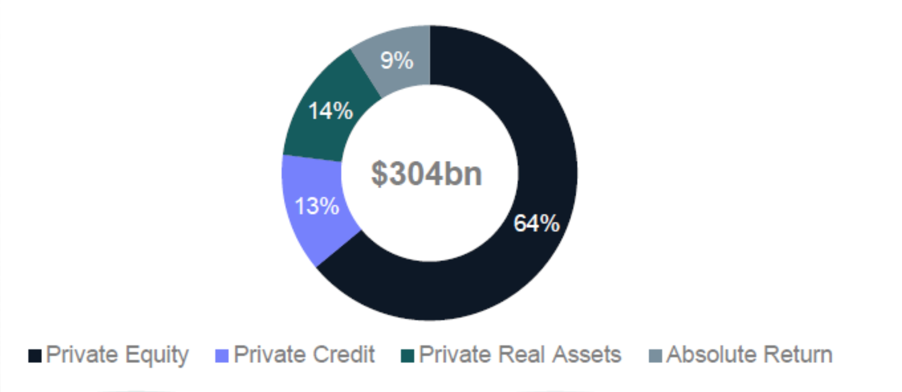
- *Market Cap: £2,250Mn ($2,850Mn)*
- *Free Float: 22%*
- *ADV: $1.1Mn*
- *Share Price: £2.07/share*
- *Net Debt: $340Mn*

PETERSHILL PARTNERS – BUSINESS

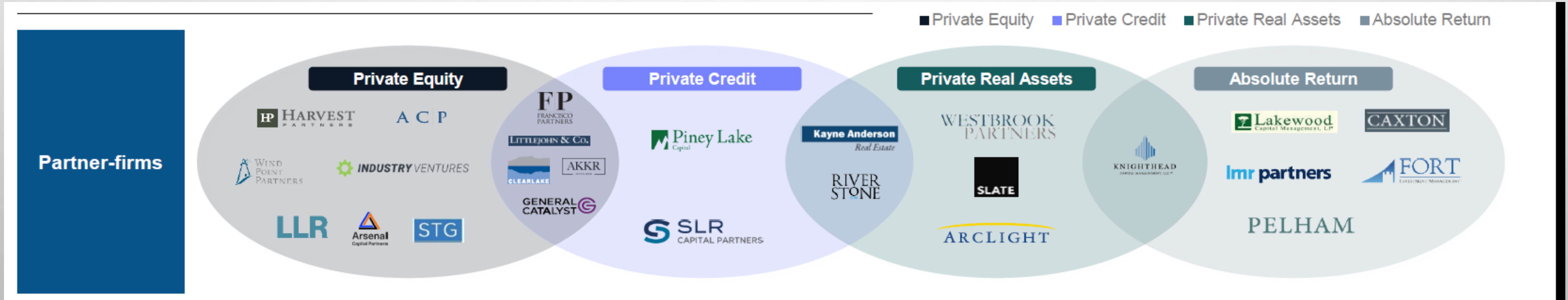
Business:

- Petershill owns minority stakes in 25 asset managers
  - These are largely US centric managers with developed world exposure
- On an AUM weighted basis, they own ~13% stake

TOTAL AUM BY ASSET CLASS[1]



Source: Company Presentation

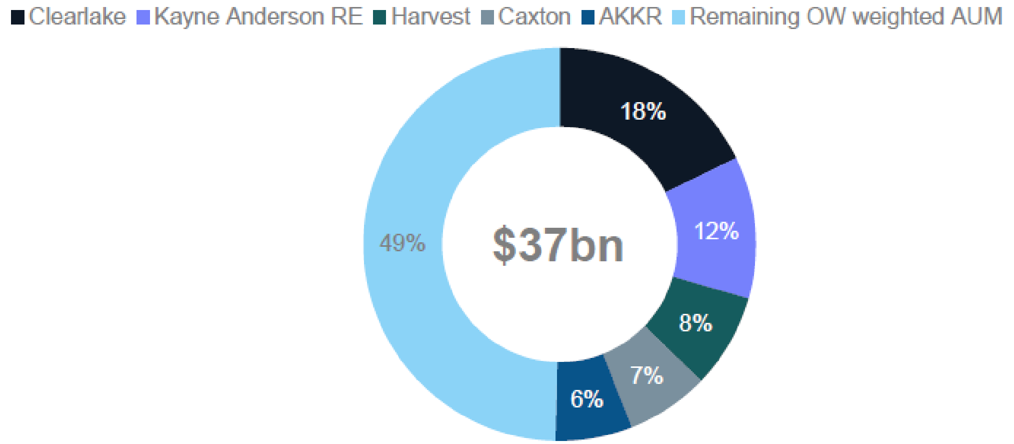


1. Represents Total AUM at end of 2023, reported with a one-period (3-month) lag due to the timing of the financial information received by the Operator from the Partner-firms.
*Diversification does not protect an investor from market risk and does not ensure a profit.

Source: Company Presentation

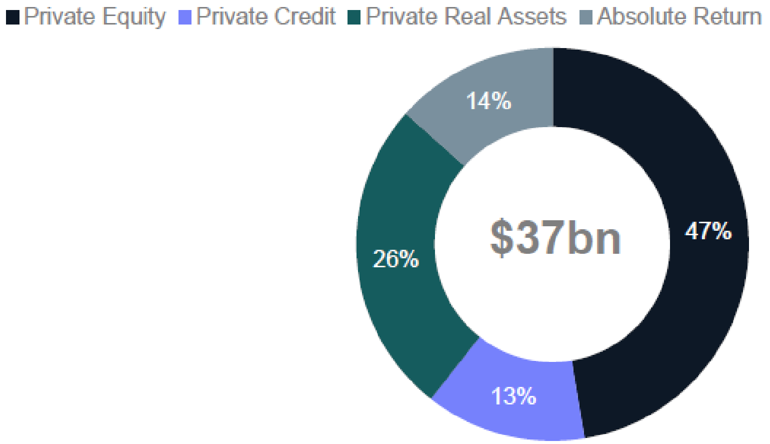
PETERSHILL PARTNERS – BUSINESS

OWNERSHIP WEIGHTED TOTAL AUM BY TOP 5 PARTNER-FIRMS ($M)



	Partner-firm	Number of Funds	OW Total AUM
■	Clearlake	16	6,624
■	Kayne Anderson Real Estate	18	4,349
■	Harvest	13	2,895
■	Caxton	5	2,542
■	AKKR	13	2,364
■	Remaining Exposure	175	18,489
	Total	**240**	**37,263**
	of which North America	88%[2]	88%
	of which Europe	12%[2]	12%

OWNERSHIP WEIGHTED AUM BY ASSET CLASS ($M)



	Partner-firm	OW Total AUM	OW FP AUM	Blended Fee Rate	Blended FRE Ownership[1]	Partner Mgt Fee Revenue
■	Private Equity	17,658	10,765	1.77%	9.19%	175
■	Private Credit	4,931	4,399	0.49%	12.34%	20
■	Private Real Assets	9,678	7,520	1.03%	21.72%	80
■	Absolute Return	4,996	4,997	1.49%	18.31%	75
	Total FRE Revenue					**350**

1. Represents the Average Implied Blended Partner FRE Ownership by asset class, including any new acquisitions. 2. Represents the geographic distribution at the partner-firm level.
*Totals may not add due to rounding.

Source: Company Presentation

PETERSHILL PARTNERS – BUSINESS DYNAMICS

Growth business

- Organic growth: Private capital is a growth market due to businesses staying private for longer, low (and increasing) penetration of private capital
  - Petershill had organic net inflow of 20% and 5% in 2022 & 2023 – arguably the most difficult years for fundraising due to denominator effect, low distributions and high interest rates
- Inorganic: Acquisition of new partners
  - The fund acquires new GP stakes along with the Petershill series at Goldman
  - As first third-party capital and value-add opportunity, they can get a good entry valuation

Recurring revenue model

- Due to the long life of funds, management fee tends to be sticky

Alignment with asset managers

- Partners earn money only when Petershill (minority shareholder) gets its share
- Non-compete results in partners using the existing vehicle for diversification into other asset classes

PETERSHILL PARTNERS – GP INVESTMENT STRATEGY

<u>Why do GPs sell minority stake:</u>

- Growth capital (GP commit for new fund or new strategies)
- Distribution support (moving from one region to other/ hand holding)
- Management transition (and hence creating market)
- Partner exit (stake buyout)
- Not just a ‘cost of capital’ play with ‘value add’ being the real differentiator

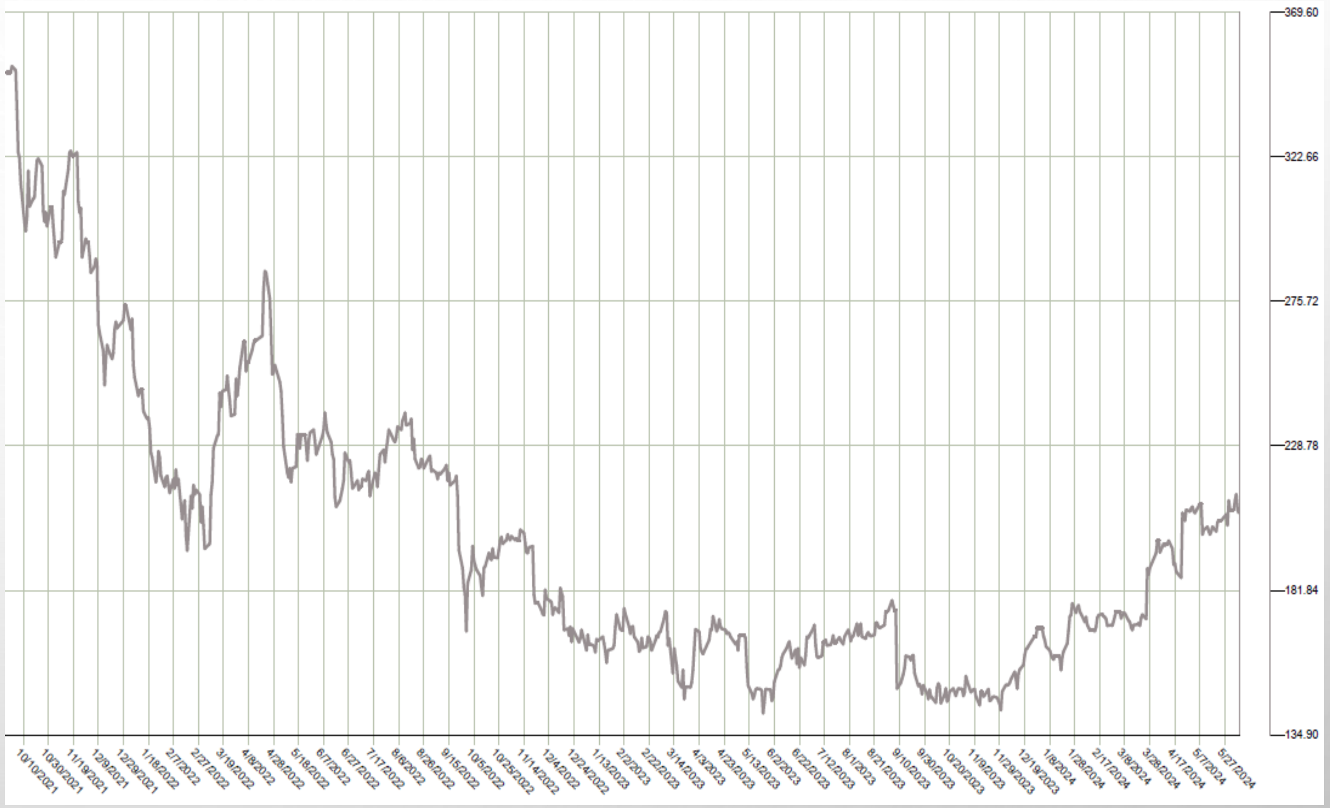
<u>Players in the space:</u>

- Top players include Petershill Partners series of Goldman (first fund in 2007), Dyal Capital (2010), Blackstone and Affiliated Managers group (1993)
  - Dyal and AMG normally come at a later stage
- Others include Bonaccord, Wafra, P10, Hunter Point, Investcorp, etc.

PETERSHILL PARTNERS – HISTORY

<u>Background:</u>

- Petershill Partners is Funds II & III of Petershill series at Goldman Asset Management
- The funds have no defined life, but have European carry (team gets paid only after capital has been returned)
- The stock was listed on LSE in Sep 2021 raising £1Bn - ~55% of which was primary capital and rest sold by Funds II & III
- Since then, multiple issues including interest rates, public market sell-offs, etc. have resulted in lack of interest in a UK listed PE vehicle with low float

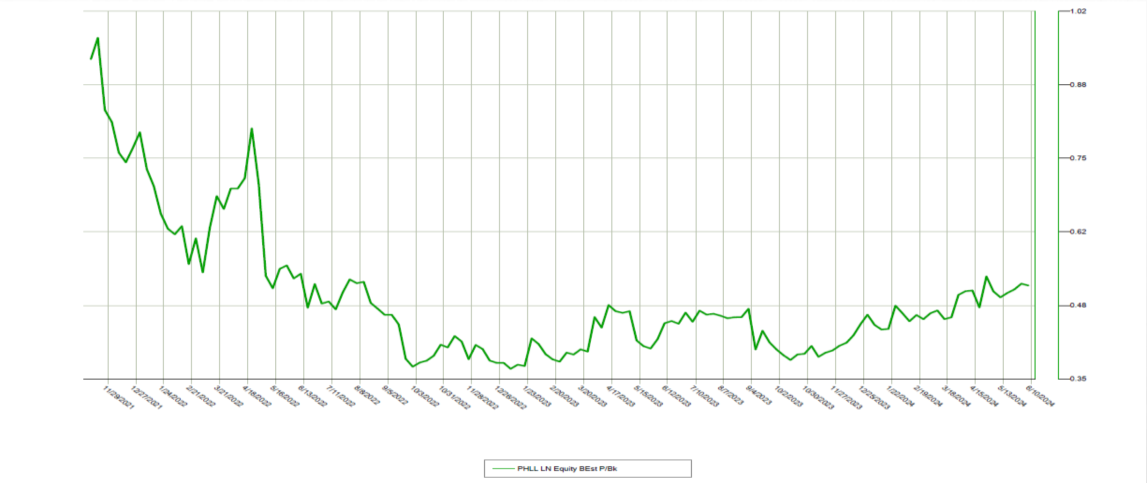


Source: Bloomberg

DISCOUNT TO NAV

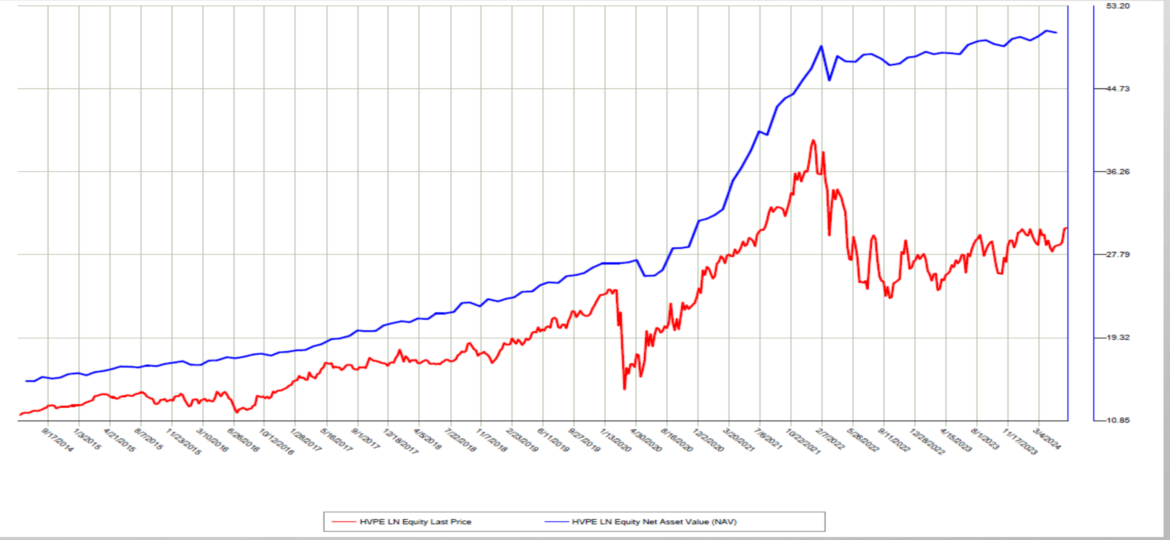
- Petershill Parnters trade at a significant discount to book value
- Book value (or NAV) of Private Capital vehicles are largely mark to model and hence (justifiably) not trusted by public investors
- Listed PE trusts (listed LP units) thus trade at a discount to NAV
    - The discount has further widened since 2022 as shown in the chart of HarbourVest which is a listed fund of funds (essentially an Index of PE)
- However, as clear from the next pages, Petershill NAV is more than justified by sustainable FCF generation
    - This is further supported by the management actions in terms of buybacks

Petershill Partners Price to book ratio



Source: Bloomberg

HarbourVest share price and NAV



Source: Bloomberg

REVENUE

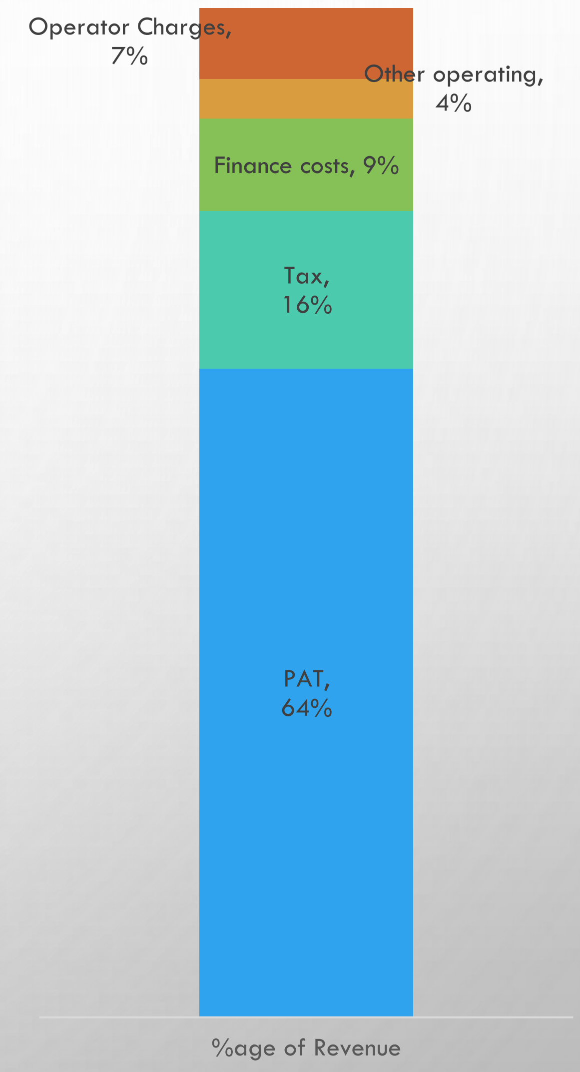
Source: Company reports, Veddis

- Fee related income has been depressed
  - Management fee grew at a CAGR of 11% , still lower than history
  - However, margins declined (from 69% to 57.5%) due to increase in junior salaries at partner firms and lower than expected AUM growth
  - These margins have stabilized, and we believe there is upside to margins from here with revenue growth getting to its historical pace
- Performance Related Earnings are variable as they are dependent on asset sales
  - 2023 was a depressed period due to lack of asset sales

EXPENSES

The cost structure is very simple as below

- Board and other operating expenses $13-15Mn
- Operator charges (paid to GSAM) are as below:
    - 7.5% on all the distributed earnings on pre-IPO investments
    - 20% on total-cash flow from new investments subject to a 6% preferred return (dividend + change in fair value) with full catch-up. <5% of the current AUM is through post-IPO managers.
    - 20% incentive fee on divestments
- Taxes: Taxes are guided to 12-14%, but they depend on the level of management fee vs performance fee as management fee is taxed at a higher rate
- Tax Receivable agreements: The cost base of their investments was increased at IPO and that resulted in lower taxes. A 75% of this benefit must be paid back to sellers (fund II and III LPs) and that is a ~$200Mn liability on the balance sheet



DIVIDENDS AND BUYBACK

Balance Sheet:

- They have $500Mn of debt and $150Mn cash net of deferred payments and the recently completed tender offer of $100Mn worth of shares

Use of cash/profits

- As mentioned earlier, 2023 was a depressed year with a total profits of $169Mn ($0.15/share) and we expect 2024 profit to be $220Mn ($0.21/share)
- They have a progressive dividend policy and paid a dividend of $0.15/share compared to $0.145/share in 2022. With the increasing profits in 2024, we expect the dividend to grow at a higher rate
- Additionally, they have a buyback plan with the most recent tender of $100Mn of shares

EXPECTED IRR – BUILDING BLOCKS

Source: Veddis

- Assuming zero performance fee, the company should generate ~$0.135/share of EPS (£0.106, or 5% yield)
- Fee related revenue has grown at 11% CAGR (including tough year in 2023), but margins have been depressed due to reasons mentioned earlier
  - As such, it is reasonable to assume a 10% Fee related earnings growth (from a depressed level) on conservative side
- On historic numbers/ their guidance, performance fee would add ~3% to earnings yield
- Current share price is trading at 20x PE multiple purely on fee related earnings, assuming a 10x PE multiple for performance fee would result in 30% upside from multiple expansion – 9% CAGR over a 3-year period

INSIDER ALIGNMENT

- Funds II & III of Petershill series own >75% of the shares. These funds have indefinite life and as such no pressure to sell
- Goldman (and the team) gets paid their carry only when they exit
  - As such a large portion of the team's net worth is directly linked to the share price
- This is further evident from the fact that the funds haven't sold their stake during the buyback in 2023 and current tender of $100Mn (completed in June 2024)
- Their end game is to sell the stock (LP units) in public market while keep it as a permanent vehicle
  - However, the price would have to be materially higher for that to happen

RISKS / MITIGANTS

S. No		
1.	Idiosyncratic issues with managers	Diversification; There is a strong alignment with asset managers
2.	LPs move away from private capital	Even though low probability, this is the main risk here. However, Petershill has a stake in management teams good in asset gathering along with performance These teams should be able to change with the flavour of the time. There are multiple examples of hedge funds moving to private capital when investor preferances changed
3.	Bumped up valuations resulting in poor fund performance	Unlike open ended funds, private capital funds have different vintages. That diversification is beneficial for the managers
4.	Petershill doing some value destructive deals	This can always happen – but incentives are aligned
5.	Majority owner acquires at discount to fair value	There are some minority protection rules, but they can 'squeeze out' if they own 90%. However, it must be done at fair value which has to be higher than current (due to management actions and buybacks, etc.) - More importantly, it is not in their best interest to go in this direction

QUESTIONS?

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