

MONTHLY REPORT JANUARY 2019

PARETURN BARWON LISTED PRIVATE EQUITY FUND

Barwon Investment Partners is an investment management company specialising in private equity and real estate.

Performance Report at 31 January 2019

Class I - Euro	1 Month	3 Months	1 Year	3 years p.a.	5 years p.a.	ITD p.a.*
Net Return to Investors	8.6%	-2.3%	-1.1%	9.8%	7.2%	11.8%
MSCI ACWI Small Cap Net TR Index	9.8%	0.2%	-1.8%	10.1%	9.5%	11.7%
Net Outperformance	-1.2%	-2.5%	0.8%	-0.3%	-2.2%	0.2%

Unit Price at 31 January 2019 299.05

* Inception date 30 November 2012

Barwon has been managing strategies in the listed private equity sector since May 2007.

Class G - GBP	1 Month	3 Months	1 Year	3 years p.a.	5 years p.a.	ITD p.a.*
Net Return to Investors	5.5%	-3.8%	-1.7%	14.2%	8.5%	13.1%
MSCI ACWI Small Cap Net TR Index	6.6%	-1.3%	-2.1%	15.1%	10.8%	13.1%
Net Outperformance	-1.1%	-2.5%	0.4%	-0.9%	-2.3%	0.0%

Unit Price at 31 January 2019 255.83

* Inception date 04 December 2012

Class U - USD	1 Month	3 Months	1 Year	3 years p.a.	5 years p.a.	ITD p.a.*
Net Return to Investors	9.0%	-1.0%	-7.7%	12.2%	4.3%	6.8%
MSCI ACWI Small Cap Net TR Index	9.8%	1.5%	-9.4%	12.1%	5.9%	7.6%
Net Outperformance	-0.8%	-2.5%	1.8%	0.2%	-1.6%	-0.8%

Unit Price at 31 January 2019 291.87

* Inception date 17 June 2013

Fund Size: €18 million.

The Pareturn Barwon Listed Private Equity Fund (Class I - Euro) returned 8.6% for the month of January 2019, underperforming the MSCI ACWI Small Cap Net Total Return Index (Index) by 1.2%. Since inception the Fund has generated a net return of 11.8% p.a., outperforming the Index by 0.2% p.a.

Market Commentary

Contributors over the month included Hercules Capital Inc (USD +18.9%), KKR & Co Inc (USD +14.4%), Blackstone Group LP (USD +13.1%) and PennantPark Investment Corp (USD +12.7%). Detractors included Cardno Ltd (AUD -6.5%) and Brait SE (ZAR -6.1%).

We felt the extent of the fourth quarter sell-off in global markets was disconnected from the generally healthy corporate fundamentals we are seeing. Anecdotally, portfolio company sales and earnings growth rates are broadly healthy although there has been a deceleration over 2018 from circa. 10% to mid-single digits. This solid underlying performance is reflected in the resilience of fourth quarter private equity NAVs as reported by the listed alternative asset managers (AAMs) which provide a positive reference point for LPE buyouts.

AAM share prices have reacted favourably to results as the market looked through fund performance impacted by fourth quarter volatility and were reassured by the strong fee related earnings growth of 10%+ (profits from base management fees). Other underlying fundamentals including fundraising, capital deployment, and portfolio company trends, remain strong.

All the alternative asset managers we follow, most recently Blackstone, Carlyle and Apollo, have now shifted their primary earnings metric to 'Distributable Earnings' (cash earnings) from 'Economic Net Income' (mark-to-market earnings). While this may be seen as a relatively minor technicality, it will serve to reduce reported earnings volatility, and shift market attention to the more consistent cash earnings. The market is becoming increasingly sophisticated in its understanding of the sector, and we hope this will eventually lead to a sustained re-rating. Our approach to valuing AAMs has always been to look through quarterly unrealised mark-to-market effects.

The business development companies (BDCs) sold off sharply in December 2018, trading as low as 0.76x price to book (P/B) value. Valuations recovered in January, with the sector trading at 0.89x P/B today, an 11% discount to NAV. The volatility that impacted the equity and high yield markets in the fourth quarter had less of an impact on the middle market, where the BDCs originate loans. We saw spreads widen and a decline in loan values in the broadly syndicated loan market, but this hasn't spilled over meaningfully into BDC fourth quarter results. Loan valuations have remained resilient and the BDC results have been ahead of market expectations. The Fund has a 17% exposure to BDCs.

The BDCs and AAMs, including Oaktree Capital Management and Ares Management who have large credit platforms, took advantage of the tightening in credit markets to increase capital deployment in the quarter. Terms improved slightly for lenders, however it is likely to remain a borrower-friendly environment for some time. On the flip side, this offers an easy financing environment for LBOs.

Brait SE, a South African investment company and a 5% Fund position, was the largest detractor in January. During the month Brait announced it would support portfolio company New Look's debt restructuring plan. Brait acquired New Look in early 2015 and wrote its equity investment to zero a little more than two years later. This has, understandably, had a massive impact on Brait's share price. From a high of R169 per share in February 2016, it now trades at under R28.

Disappointingly, Brait has invested additional capital in New Look, and committed to providing more capital as part of the restructure. Brait's allocation of capital has frustrated investors. The additional investment in New Look introduces greater leverage on Brait's balance sheet and increases exposure to a weak UK retail market.

The Fund's investment is below cost (~0.6x MOIC). We've been surprised and disappointed by the decisions of Brait's management team. We remain confident, however, in the performance of Brait's other investments; Virgin Active, Premier and Iceland Foods, which continue to trade well. The stock is trading at a 50% discount to our estimated proforma NAV, offering a reasonable cushion and attractive upside when things turn around for the troubled manager.

Underlying Investment Exposures on a Look-Through Basis

Investment Classification		Vintage Year		Geographic Exposure	
Buyouts/ Growth Capital	35%	Pre 2013	22%	North America	62%
Alternative Asset Manager	27%	2013	2%	Europe	27%
Private Debt	17%	2014	11%	Other	11%
PE Backed	16%	2015	13%	Total	100%
Liquidity	5%	2016	19%		
Total	100%	2017	18%		
		2018	15%		
		Total	100%		

Currency Exposure	
USD	60%
EUR	20%
GBP	14%
Other	6%
Total	100%

5 Largest Holdings by Weight

Company	Type
KKR & Co Inc	Alternative Asset Manager
Blackstone Group LP	Alternative Asset Manager
Onex Corp	Buyouts/ Growth Capital
3i Group plc	Buyouts/ Growth Capital
PennantPark Investment Corp	Private Debt

Key Information

Strategy	High conviction, value-orientated, bottom-up stock selection. Long-only, unlevered, benchmark unaware
Structure	Luxembourg-domiciled SICAV authorised as a UCITS
Management Company	MDO Services SA
Delegate Investment Manager	Barwon Investment Partners Pty Ltd
Share Classes, ISIN	Class I, Distribution, EUR - LU0856658553 Class G, Distribution, GBP - LU0856664106 Class U, Accumulation, USD - LU0940438756
Bloomberg Ticker	Class I, PARBLPI Class G, PARINDG Class U, PARUIUC
Pricing and Dealing	Daily
Minimum Investment	Class I, €6,000 Class G, £5,000 Class U, \$8,000
Income Distributions	Annual for distributing classes
Entry / Exit Fees	None
Management Fee	0.65%
Performance Fee	Performance fee is 15% above the performance hurdle of 12% per annum over rolling 2.5-year period
Total Expense Ratio	Total expense ratio excluding performance fees is capped at 0.90%

Barwon Investment Partners is a Sydney based alternatives investment manager specialising in private equity and property. We have a successful track record of over 10 years of investing in listed private equity.

Other Information

Barwon also manages the Barwon Global Listed Private Debt Fund, an Australian domiciled unit trust.



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