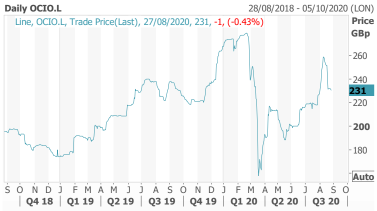
1 September 2020

HARDMAN&CO.

## Closed-Ended Investment Funds




*Source: Refinitiv*

## Market data

| | |
|---|---|
| EPIC/TKR | **OCI** |
| Price (p) | **231.5** |
| 12m High (p) | 279 |
| 12m Low (p) | 188 |
| Shares (m) | 190.6 |
| Mkt Cap (£m) | 441 |
| NAV p/sh (p, Jun) | 356 |
| Disc. to NAV | 35% |
| Market | Main Market SFS |

## Description

Oakley Capital Investments (OCI) has generated market-beating returns from its concentrated, three-sector-focused portfolio of private equity (PE) investments via Oakley Capital (Oakley) PE funds. Oakley has a proven model for sourcing investments, and an excellent track record of identifying resilient value opportunities and delivering superior returns.

## Company information

| | |
|---|---|
| Chairman | Caroline Foulger |
| Ind. NED | R Lightowler |
| NED | P Dubens, S Porter |
| Inv. Mgrs. | Oakley Capital |
| Contact | Steven Tredget |

investorrelations@oakleycapital.com

## Key shareholders

| | |
|---|---|
| Asset Value Investors | 14% |
| Invesco | 10% |
| Peter Dubens | 9% |
| Barwon IM & Sarasin | 7% |
| Lombard Odier & City of London IM & Fidelity | 5% |
| Jon Wood & family | 4% |
| Rothschild WM & Jupiter | 3% |

## Diary

| | |
|---|---|
| 10 Sep | Interim results |

## Analyst


Mark Thomas 020 7194 7622
mt@hardmanandco.com


# OAKLEY CAPITAL INVESTMENTS LTD

## "When it rains gold, put out the bucket"

**Over 10 years, OCI has delivered a 156% total NAV return. Its investments in Oakley Capital's (Oakley) private equity (PE) funds have delivered total realised returns of 3.5x money multiple and 48% gross IRR to date since inception. Oakley has unique advantages in origination, management and complex-deal structuring. Portfolio companies benefit from improved operational efficiency, strategic development, ratings and governance. OCI's end-June cash was £261m (59% of market cap.) – well positioned to take market opportunities. The 1H'20 NAV total return was 4%, despite COVID-19. The 35% NAV discount appears anomalous with performance.**

- **COVID-19 experience:** Oakley's expertise/funding is assisting its companies through the crisis. Three quarters of investments benefit from having digital and subscription models, or both. 12 of 15 companies are expected to end the year at or near budget. The 1H'20 NAV total return was 4% (-1% constant currency).

- **Strategy:** Oakley's sector-focused, technology-orientated portfolio of companies delivered 17.5% annual EBITDA growth to end-June (30% to December 2019). Oakley's deep entrepreneur relationships give it unique origination advantages. Current cash of £261m means investment opportunities can now be taken.

- **Valuation:** Investors can take comfort that the NAV approach is realistic at the valuation date. Against the end-June NAV, OCI trades at a 35% discount, despite its absolute (10-year 156% total NAV return) and relative (Oakley Funds II & III top-quartile/5% by different measures) performance. OCI's dividend yield is ca.2%.

- **Risks:** While OCI's costs are slightly above-average, post-expense returns are still market-beating. Sentiment towards the turn in the economic cycle is likely to be adverse, even though outperformance has been delivered in downturns. OCI's portfolio is concentrated. Its permanent capital is right for private assets.

- **Investment summary:** OCI provides investors with liquid access to the attractive PE market, enhanced by Oakley's incremental origination and management skills. The Oakley Funds are focused on mid-market, tech-enabled, Western European companies that operate in consumer, education and technology sectors. The accounting and governance appear conservative. There are risks – primarily sentiment-driven – around costs and cyclicality, as well as the liquidity and valuation of the underlying private assets. Previously large shareholder overhangs have now been sold down. It appears anomalous that a business with a consistent record of outperformance is trading at a material discount to NAV.

## Financial summary and valuation

| Year-end Dec (£000) | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|
| Interest income | 7,722 | 6,629 | 9,218 | 10,043 | 9,743 |
| Realised gains | 23,991 | 102,314 | 17,840 | 26,000 | 13,763 |
| Unrealised gains | 20,316 | -23,877 | 127,741 | 30,000 | 55,051 |
| Total income | 51,496 | 88,432 | 153,157 | 66,510 | 79,023 |
| Costs | -6,571 | -6,434 | -17,888 | -24,920 | -18,763 |
| EPS (p) | 22.0 | 40.0 | 66.3 | 21.4 | 31.6 |
| NAV per share (p) | 2.45 | 2.81 | 3.45 | 3.75 | 4.02 |
| S/P discount to NAV | 17% | 18% | 19% | -38% | -42% |
| Investments (£m) | 420 | 470 | 661 | 577 | 751 |
| DPS (p) | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |

*Note: OCI 2017 costs restated to include interest per 2018/2019 treatment.*
*Source: Hardman & Co Research*

# Table of contents


Oakley Capital disclaimer ........ 3
Executive summary ........ 4
Summary ........ 6
COVID-19 ........ 11
  Valuation changes in 1H'20 ........ 11
  Risks ........ 13
  Investee company support in crisis ........ 15
  Some of the winners / attractive re-investment returns ........ 16
Investment attractions ........ 17
  Long-term market-beating performance ........ 17
  PE is an attractive market ........ 19
  Enhanced strategic optionality ........ 20
  Improved operational efficiency ........ 22
  Valuation re-rating ........ 25
  Enhanced investee ESG ........ 27
  Portfolio focus ........ 28
  Oakley's origination and other advantages ........ 29
  NAV approach appears conservative ........ 30
  Dry powder in large buyout funds ........ 32
  Liquidity management ........ 32
  Pro-active approach to the NAV discount ........ 33
Investment-neutral issues ........ 35
  No Woodford/H2O funds real read-across ........ 35
  Corporate governance improving ........ 36
  Concentration opportunities and risk ........ 37
  Other neutral factors ........ 38
Investment downsides ........ 39
  Costs ........ 39
  Perceived sensitivity to economic cycle ........ 43
  Private asset holdings ........ 46
  Interpretations required in the valuation ........ 46
  Long tail exit for underperformers ........ 47
  Other (minor) issues ........ 48
Portfolio ........ 49
Valuation ........ 53
Financials ........ 55
Appendices ........ 57
Disclaimer ........ 66

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# Executive summary

*Long-term share price massively outperformed benchmark indices. Current investee companies averaging 17.5% (ca.30% before COVID-19 crisis) EBITDA growth.*

OCI, through its investments via Oakley Funds, has generated market-beating returns from a concentrated, three-sector-focused portfolio of PE investments, which have a strong bias to technology and tech-enabled services. Oakley has a proven model for sourcing investments, identifying resilient value opportunities and delivering superior returns. OCI's share price has significantly outperformed markets over the long term, rising 2.2x since inception (AIM and FTSE 100 falls of 19% and 3%, respectively). In its realised book within Oakley Funds, the gross IRR has been ca.48%, with a gross money multiple (i.e. sale proceeds compared with cost) of 3.5x. Investee companies averaged 17.5% EBITDA growth in the year to June 2020 (i.e. after the initial COVID-19 effects), continuing a long-term record of market-beating growth.

*Outperformance not an accident. It is driven by OCI benefiting from value being added to underlying companies and exploiting the other advantages of Oakley as a manager.*

OCI has outperformed public markets, with value in the underlying companies being created in six ways: i) committed funding for strategic development, including acquisitions; ii) delivering operational improvements to grow revenue, manage costs and optimise financing (Oakley observes the latter is not a key driver); iii) improving valuations, i.e. buy low and sell high; iv) enhancing corporate governance; v) concentration in the mid-market, Europe and three sectors; and vi) Oakley, the manager, has repeatable origination advantages. We give detailed examples below.

*Other positives include conservative accounting and large-fund dry powder creating buyers*

Other positives include i) the NAV approach appears conservative at the valuation date, ii) the dry powder in large buyout funds increases realisation options, iii) following timely disposals, cash levels (£261m June) are high, allowing opportunities for re-deployment at potentially attractive returns in due course, and iv) a proactive, multi-pronged approach to managing the NAV discount.

*Neutral issues include Woodford read-across (no fundamental read-across but poor for sentiment), improving corporate governance, and risk and opportunity from having concentrated portfolio*

Investment neutrals include i) while we see no financial or business read-across from the Woodford experience, it has affected investor sentiment, ii) corporate governance has been improved from a below-peer level, iii) the opportunities and risks from having a concentrated portfolio, iv) KID stress-tests showing in-line downside risk, and v) a five-yearly continuation vote will be held in 2022.

*Costs reflect business model that delivers market-beating returns after fees. Most costs are performance-related. Manager/investor split of fees in line with market.*

PE is an above-average cost business, and OCI's total incurred costs are at the higher end of peers. We note that i) significant due diligence and post-acquisition management limit downside risks, ensuring the costs are more than compensated for by rewards, ii) returns are after all costs, iii) we estimate three quarters of costs are performance-related, iv) the manager/investor split of fees appears in line with the market, and v) funds holding public equities incur many more costs at the underlying company level.

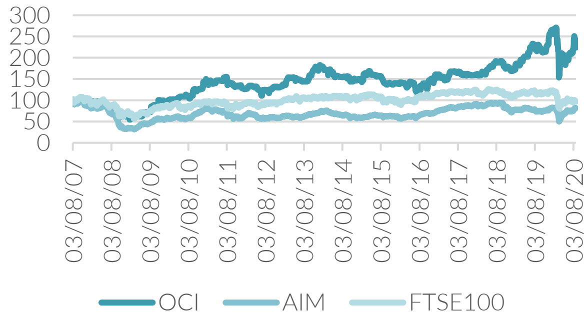
*Academic research shows resilience of PE in downturn. Portfolio proved resilient through initial COVID-19 crisis with NAV up 4% in 1H'20. Gearing does not appear inappropriate.*

PE has proved remarkably resilient to historical economic downturns, although investor sentiment to this issue is, we believe, negative. Academic research highlights that PE continues to outperform public markets with committed funding and the enhanced management it brings to investee companies. In terms of COVID-19 exposure, we note i) the NAV total return in 1H'20 was 4% (-1% constant currency) – a peer and listed market-beating performance, ii) 12 out of 15 companies are, by year, expected to be at or close to budget, iii) Oakley's expertise/funding adds material value in such challenging times, and iv) technology bias of portfolio. Gearing appears appropriate, and cov-lite documentation should reduce the probability of default.

*OCI has right structure to hold private companies, as should never be forced seller at distressed prices. Discount anomalous to returns, and we examine potential triggers to re-rating*

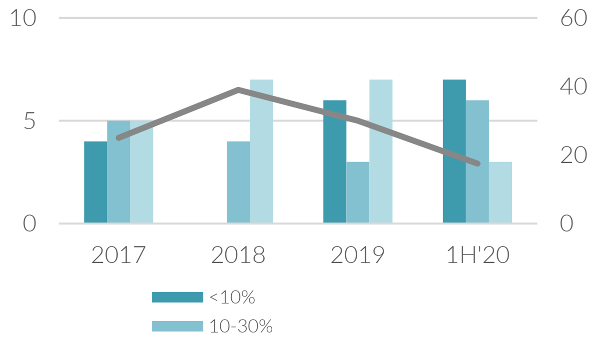
Investors' concerns of private companies in public funds are focused on valuation (as noted above, we believe Oakley's, and so OCI's approach, are conservative), illiquidity (Oakley will not be a forced seller at distressed prices) and corporate governance (improving). Other negatives include the fact that there is judgement in any accounting of illiquid assets, the long tail for underperformers (Oakley's long-term focus can optimise returns) and currency. The discount appears anomalous with the long-term superior returns, and we examine potential triggers to a re-rating.

## OCI's share price compared with AIM and FTSE 100 since 2007



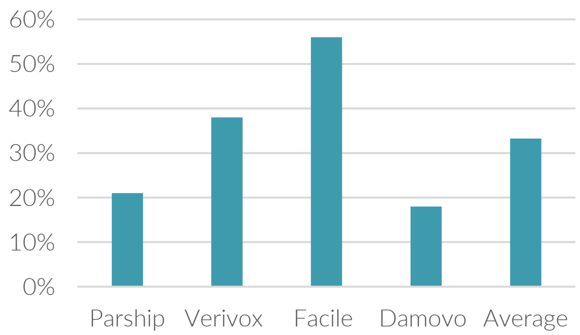

- OCI's share price has significantly outperformed UK markets.
- Driven by a business model that adds value.
- Oakley Funds broadly doubled investor money (after all costs) with a typical hold period of four to five years.
- Net of cost IRR on realised portfolio 29% (Fund II) and 42% (Fund III).
- Top-quartile/5% benchmark performance by different measures.

## Number of investments with range of EBITDA growths (%) and average annual EBITDA growth rate (RHS, %)



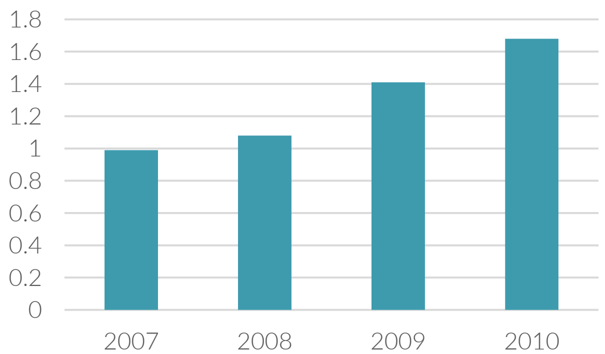

- Value from i) strategic optionality, ii) operational performance, iii) buying low and selling high, iv) corporate governance, v) focused investment, and vi) Oakley benefits.
- Strategic optionality includes acquisition (origination, review and finance), as well as funding of, and advising on, organic growth options. Operational improvements have generated accelerated revenue and cost efficiency.
- On average, Oakley Funds' investments bought at 21%-24% discount to comparable deal ratings. They are typically sold on EV/EBITDA 1.5x higher.

## Uplift in value on realisation vs. latest accounting book value (%)




- Investors can take comfort that the valuation approach is "real" from i) uplift on sale, ii) there is no incentive for inflated valuations, and iii) carry costs are conservative relative to cost.
- Since 2007, the average uplift on sale to last carry value has been 34%. This partially reflects the exit premium, but the level is above a "normal bid premium", even for trade sales.
- The main management fees are based off commitments or invested cost, not accounting values. Performance fees are paid only on sale.
- The carry value is only ca.1.7x cost.

## Recession fears may be more than in price – NAV (£) rose in 2007-08 financial crisis




- OCI was launched in 2007, and so was overweight cash at the start of the crisis. Even allowing for that, the rise in NAV is a positive performance. Most PE houses saw only modest falls, much less than the market.
- OCI's gearing levels appear manageable, and cov-lite documentation should help reduce default rates.
- The portfolio is positioned in defensive sectors such as education and sub-sets of technology. Most of the consumer book should also be defensive, being significantly digitally-focused. Time Out and North Sails are the investments most sensitive to COVID-19.

*Source: Company data, Hardman & Co Research*

# Summary

## Investment positives

*OCI outperformed quoted markets on sustained basis over long term*

OCI's share price has generated market-beating returns from the concentrated, three-sector-focused portfolio of tech-enabled PE investments. As a consequence, its share price has materially outperformed UK markets. Looking forward, the sustainability of such a performance will, we believe, reflect the fact that OCI has seen value created in the Oakley Funds in six ways: i) committed funding for strategic development, including acquisitions; ii) delivering operational improvements to grow revenue and manage costs; iii) improving valuations i.e. buy low and sell high; iv) enhancing corporate governance; v) concentration in the mid-market, Europe and three sectors, as well as technology/tech-enabled companies; and vi) Oakley, the manager, having origination/other benefits. We give detailed examples of each below.

*Oakley helps create strategic optionality for investee companies*

In terms of value added by strategic optionality, Oakley Funds gives investee companies access to committed funding lines, allowing them more options to transform their strategies and invest. It facilitates acquisitions, and smaller companies doing deals are more likely to add value than larger companies. The assessment of acquisitions is a core PE competency and one area where Oakley's expertise can add value to its companies. Additionally, detailed sector knowledge, repeating playbooks and knowing comparator efficiency levels can all help to add value in this area. Nearly two thirds of OCI's investments have made acquisitions, with examples including North Sails, WebPros, AMOS and Ocean Technology Group. Funds and expertise are also provided for organic strategic developments, such as at Time Out.

*Operational improvements to accelerate revenue and improve efficiency*

Bain analysis indicates that half the value creation in PE comes from improving operational performance – both faster revenue and cost efficiency. Portfolio companies have done both. The 17.5% EBITDA average growth does not fully reflect the Oakley value add, as it is depressed by COVID-19 effects (it was ca.30% in the period before the crisis) and by newly-acquired companies whose performances have yet to be improved. Oakley works in partnership with management, and cultural fit is important. While investee companies aim to optimise financial gearing, OCI does not believe this is a key driver for the company.

*Oakley Funds' investments typically bought at multiples 21%-24% below comparable deals. Extensive due diligence conducted ahead of acquisition has limited the downside.*

The Bain analysis also indicates that half the value added in PE comes from multiple expansion – buy low and sell high. Oakley's average EV/EBITDA acquisition multiple has been consistently 21%-24% below comparable deal multiples. Three quarters of deals are uncontested, and, in 90%+ of deals, Oakley is the first PE house investing. Oakley's network of entrepreneurs, its sector focus and its expertise in managing complex situations, such as carve-outs, are integral to this. We note i) private markets give many more potential targets than public markets, and ii) the extensive time spent understanding the target limits the downsides. Oakley spent seven months on WebPros and nine months on Career Partner Group. Exit multiples are ca.1.5x the buying multiples, reflecting Oakley's sourcing advantage, the improvements made to the quality of revenues, and the buying appetite for Oakley's assets from strategic and large PE funds with dry powder.

In the COVID-19 aftermath, it is probable that financially constrained large companies may spin out non-core businesses in order to improve their balance sheets. Such complex deals are a core Oakley competency, and we expect to see such activity feeding through to investments over the next six to 12 months.

*Good corporate governance and alignment of interests*

Managers and shareholders are aligned through the whole value chain. Investee company managements have €120m in Oakley Funds. Oakley managers own 9.5% of OCI. Performance fees are paid on realisation only. Oakley has extensive ESG policies.

*Portfolio concentrated in areas where value-add opportunity highest*

Oakley Funds, and so OCI investments, are concentrated in areas where the manager sees that it can add value. It is in the middle market, with target EVs in the range of €100-€400m and where the main Oakley Fund is looking to invest €50m+. The average investment has been growing as each Oakley Fund has raised ever larger amounts of capital (2007 Fund I €288m, 2013 Fund II €524m, 2016 Fund III €800m, 2019 Fund IV €1,460m). To continue to exploit its historical core in deals at the lower end of the range (where equity investments may range from €10m to €50m), a new Oakley "Origin" Fund was launched in 2020, to which OCI has committed €75m (£68m).

*Middle market*

The middle-market fits well with Oakley's network of entrepreneurs and their proven skill base: i) less competition; ii) more opportunities for targets to grow; iii) access to cov-lite lending; iv) targets likely to benefit the most from PE expertise; and v) many more routes to exit than large deals.

*Western Europe and in three sectors*

Oakley is geographically concentrated in Western Europe, where there is less competition and where there are more targets. Also, Oakley is concentrated in just three economic sectors – consumer (largely tech-enabled), technology and education – and is focused in sub-sectors of those. The Bain analysis (page 23) highlighted that a disproportionately large concentration of outperforming buyout funds were those focused in a narrow range of sectors.

*Oakley brings origination and other competitive advantages*

OCI benefits from having Oakley as the manager. We identified above that Oakley Funds' investments were purchased below comparable deal valuation multiples. A core part of this comes from Oakley's origination advantage. In particular, it appears to be the preferred partner for entrepreneurs, resulting in more than 75% of deals being uncontested, and, in over 90% of cases, it is the first PE investor in their portfolio companies. This is driven by culture, being engaged but not over-bearing, its proven track record, direct financial alignment, and expertise in a focused niche. There are multiple examples of repeat business, cross-fertilisation of NEDs, etc. Oakley brings market knowledge, can repeat successful playbooks across multiple jurisdictions, and has economies of scale. By way of example, its operations in Italy gave it an early view on what to expect when countries enter and exit COVID-19 lockdowns.

*NAV approach appears conservative, with realisations well above book, no incentive for it to be inflated and carry value 1.7x cost*

The focus on whether the accounting valuation of private companies in public funds is fair has never been higher. We believe investors can take comfort that OCI's NAV approach is conservative from the following: i) the ultimate verification of accounting value is what businesses sell for – in OCI's case, the average uplift on sale has been 34%; ii) there is no incentive for Oakley to inflate value with performance fees, with the vast majority of fees paid only on realisation and not on the accounting value – management fees are driven by commitments and invested cost, not accounting value; iii) in the last accounts, the carrying value was just 1.7x the cost of investment (1.8x excluding Time Out); and iv) there are the usual control procedures in place, including review by the board and independent auditors at the year-end.

*Dry powder in big firms increases Oakley's exit options. We expect less cash drag going forward. Management pro-actively addressing discount to NAV.*

Other investment positives include the following: i) significant dry powder (i.e. unused capacity) in PE has driven up competition (however, this firepower is concentrated in large funds that are not typically competing directly with Oakley for new deals – the larger-fund dry powder typically has several years left in its investment period, and such funds are known buyers of Oakley assets, so the dry powder could be a potential positive); ii) balancing liquidity and returns is a core management skill – OCI's level of over-commitment looks reasonable in light of the cash on the balance sheet, borrowing capacity, likely realisations and relative to peers; and iii) the OCI board has taken increasing action to address the NAV discount, including no further equity issuance at a discount to NAV, increasing director/manager personal holdings to nearly 10% of OCI, no performance fees on debt direct investments, paying dividends, increased disclosure, moving from AIM to SFS, and re-balancing the board to independent NEDs. Buybacks are done tactically, typically in irregular but sizeable deals, rather than small daily flows.

## Investment-neutral factors

*No direct read-across from Woodford, given OCI's conservative NAV, improved corporate governance, permanent capital structure, own share price liquidity, and Woodford stake in OCI been totally sold. However, may impact sentiment.*

We see no substantive Woodford read-across, and it may actually create some business opportunities for Oakley, but investor sentiment on the related issues is harder to call. The reasons we say there is no financial read-across are that OCI has permanent capital, a conservative NAV, a now visibly independent board, no asset contagion, and minimal dependency on platform distribution. In addition, OCI shares are liquid, large shareholders are a falling proportion of the register, and IPOs are only a minor source of realisations. On the upside, we may see a shift towards closed-ended vehicles. Also, more companies are staying private for longer, increasing OCI's advantages from fishing in this pool. On the downside, investor appetite for illiquid, unquoted investments has lessened, and market sentiment is likely to be adverse.

*Corporate governance improved*

Significant progress has been made to improve corporate governance. An experienced OCI board has become more visibly independent from the manager, with new NEDs appointed in 2019. In terms of the relationship with Oakley, there are multiple potential conflicts of interest to manage. This is achieved through i) detailed policies agreed by the board, ii) a new Management Engagement Committee, and iii) OCI accounts for just over a third of the Oakley Funds' commitments, a ratio that has been falling as Oakley has raised successive funds with greater non-OCI commitments.

*Other neutral factors: concentrated portfolios carry risk, as well as opportunity; KID stress-tests in line; continuation vote in 2022.*

Other neutral factors include i) opportunities and risks from having a concentrated portfolio – in late 2019, one position alone added 8% to NAV on disposal and a concentrated portfolio focuses the mind on due diligence – however, individual company underperformance is also highly visible, ii) KID stress-tests show in-line downside risk – there are correlations between this scenario and large discounts, although we note that the methodology of its calculation is unwelcome by all in the market, and iii) a five-yearly continuation vote, with the next due at the 2022 AGM.

## Investment risks/downsides

*OCI in a high-cost, high-return business, but share of profits attributable to shareholders appears broadly in line with investment company markets. Vast majority of costs performance-related. Comparisons with investment companies investing in public companies need to bear in mind all costs in underlying companies.*

We see three material issues, although, on detailed examination, much of the concern is sentiment-related, rather than being backed by substantive facts. The first issue is costs. PE is a high-cost, high-return business, and statutory disclosure is unhelpful, with some costs taken through lower asset valuations. OCI has above-average total costs compared with its peers, driven, we believe, by performance fees. While costs may appear high, i) investors typically more than double their money over a four- to five-year hold period, ii) around three quarters of forecast costs are performance-related, and paid only on sale, and iii) the split of the return between management and investors is broadly similar to the AIC average. We additionally note that i) the management fee is based off commitments and invested cost, not accounting values (so there is no incentive to inflate values), and ii) the performance fee is paid only on realisation, not on the book value. The scale of advisory fees (2% on both purchase and sale of direct equity investments) has raised some questions.

*Sentiment to downturn risks may be overdone, given actual performance of OCI/PE through previous downturns and in 1H'20*

The second investor concern is how OCI will perform in the event of an economic downturn – a concern highlighted by the probability of a COVID-19 recession. In considering this, investors should bear in mind i) the 4% (-1% constant currency) NAV return seen in 1H'20, ii) OCI's annual NAV rose through the 2007-08 financial crisis and recovery afterwards, but it was overweight cash, having been launched only in 2007, and iii) other PE companies typically saw only modest falls in NAV during the financial crisis, well below index drops. On pages 11 to 16 of this report, we have given a detailed review of OCI's exposure to a COVID-19-driven downturn, in addition to its sectoral exposure and gearing (by company, Fund and OCI itself, with a detailed comment on the more geared, higher-risk companies).

*Downturn will have impact on business, but investee companies concentrated in relatively defensive sectors. Companies and Oakley Funds do not appear over-geared, and there is access to cov-lite documentation, which is likely to see fewer default events.*

A downturn will have several potential impacts: i) a weaker trading outlook for the underlying companies – as we show below, the academic research concludes that PE-backed companies continue to outperform, aided by greater certainty in finance and operational improvements, and both of these appear evident in Oakley's actions in response to COVID-19; ii) OCI's performance is likely to be impacted, with potentially deferred and lower realisation rates by Oakley – to date, Oakley has still been able to complete exits, but we see a six- to 12-month delay to new investments by the Funds (with a  potentially high cash drag in 2020, offset by higher returns in future years); iii) the valuation rating applied to underlying companies is likely to fall, although this may take a little time to come through to the published number; and iv) in due course, there are likely to be more re-investment opportunities at lower prices. On the downside, sentiment is likely to be adverse, widening the discount.

The third key area for sentiment is investors' appetite for private asset holdings in public funds. In terms of valuation, the absence of a market price should not be a concern, given OCI's long track record of conservatism in its accounting approach (provided by Oakley) and the fact that we believe the "real" NAV may well be above the book NAV at any given valuation date. In terms of liquidity, investors can take comfort from i) the permanent structure of the closed-ended vehicle means OCI will not be a forced seller of its fund investments at distressed prices, while Oakley Funds' committed funding means they will not be a seller of the underlying assets, ii) appropriate gearing and liquidity, and a conservative commitment policy, and iii) a deep secondary market, where prices for OCI's types of fund asset are generally close to par.

*Other concerns include shades of grey in accounting, including timing (we note conservative approach overall), long tail for underperformers (but Oakley can take time to optimise value), duration of discount and currency noise*

Other potential investor concerns could include the shades of grey inherent in the accounting, a medium-term rising EV/EBITDA multiple (notwithstanding the recent small fall), the time it takes for the NAV valuations to "catch up" with falling markets and Oakley's sometimes rapid recognition of value enhancement post acquisition. As noted earlier, we consider the actual realisations against the book value as a key metric to show conservatism in accounting and, if Oakley Funds' assets have been bought cheaply, the market value of the business is likely to be above its acquisition price. An additional issue could be the fact that there is a long tail for underperformers. Oakley, with its long-term focus, is not forced to sell underperforming businesses, and can take time to properly restructure and optimise returns. While the discount has been a feature for a long time, there are multiple examples where such a discount has been reversed. Currency may introduce an element of short-term noise.

## Portfolio

At the end of 2019, there was cash/cash equivalents of £49m, but this rose to £261m by the end of June, driven primarily by two large disposals (WebPros and Inspired).

| Key metrics for portfolio companies as at June 2020 | | | | | | |
|---|---|---|---|---|---|---|
| Company | Country | Investment date | Fund | Cost (£m) | June valuation (£m) | Sector |
| TechInsights | Canada | May 2017 | III | 0.5 | 15.9 | Technology |
| Daisy | UK | Jul 2015 | II and OCI | 24.6 | 26.4 (debt 16.4) | Technology |
| Ekon | Spain | Jun 2019 | III | 18.0 | 18.4 | Technology |
| Contabo | Germany | Oct 2019 | IV | 5.1 | 5.3 | Technology |
| | | | | | | |
| Casa.it & atHome | Italy | Jan 2017 | III | 10.2 | 27.8 | Consumer |
| Facile | Italy | Jun 2018 | III | 28.8 | 40.6 | Consumer |
| Time Out (pre 2020 placement) | Global | Nov 2010 | I and OCI | 116.6 | 48.2 | Consumer |
| North Sails | USA | Mar 2014 | II | 117.7 | 131.4 (96.0 debt) | Consumer |
| Iconic BrandCo (Alessi) | Italy | Aug 2019 | III | 7.9 | In below | Consumer |
| Seven Miles | Germany | Aug 2019 | III | 24.8 | 25.1 | Consumer |
| | | | | | | |
| Career Partner | Germany | Jan 2018 | III | 1.5 | 61.3 | Education |
| Schülerhilfe | Germany | Jul 2017 | III | 30.8 | 46.8 | Education |
| ACE education (AMOS) | France | Aug 2017 | III | 7.1 | 12.5 | Education |
| Ocean Technologies | Norway/UK | Jun 2019 | IV | 22.9 | 23.3 | Education |
| | | | | | | |
| **Investments in 2020 (cost)** | | | | | | |
| Iconic BrandCo (Globe-Trotter) | UK | Apr 2020 | III | 7.7* | 16.2 | Consumer |
| Time Out | Global | May 2020 | I and OCI | 21.2 (in row above) | (in row above) | Consumer |
| WebPros** | Swiss/USA | Apr 2017 | IV | 44.4 | 46.3 | Technology |
| Ocean Technologies (add-ons) | | | | £2.9m (in row above) | (in row above) | Education |
| | | | | | | |
| Cash | | | | | 261 | |
| Other assets and liabilities | | | | | -115 | |

**Of the £10.6m referred to in the 4 March 2020 RNS £7.7m has been invested to date. ** WebPros sale completion and re-investment through Fund IV; there was a follow-up investment of £44.4m.*

*Source: OCI presentations updated for capitalised deal costs, Hardman and Co Research*

## Valuation

*Against June, NAV discount 35%. Given market movements, digital and subscription model bias, and known realisations, more likely to be 57%, stripping out cash from NAV and market capitalisation. Anomalous with superior long-term returns.*

By their nature, PE funds are revalued on an infrequent basis. Against the June 2020 valuation, OCI is trading at a 35% discount. With 37.7% of the NAV in cash, the discount being applied to the investments is probably close to 57%. Such discounts appear anomalous with a business that has delivered the relative and absolute returns seen by OCI in the past and which, for the factors outlined above, we believe should be deliverable over the medium/long term going forward. We examine in the section below a number of potential triggers to a re-rating, including performance through a downturn, investor awareness and the company's IR engagement strategy.

# COVID-19

OCI has a strong balance sheet, enhanced by fortuitous timing on two sales, which have seen cash increase from £50m at December 2019 to £261m in June 2020 (WebPros, announced in December 2019, Inspired's 8 April stake sale); there was also a partial disposal of the atHome investment. Furthermore, many of the digital/subscription income businesses (65% and 71% of business models, respectively) are likely to see market share gains and higher long-term values. Oakley's assessment is that 12 of its 15 companies are expected to be at or near their budgets by year-end. It believes 23% of NAV has been unimpacted or may benefit (Contabo, Career Partner, Ocean Technologies Group, Seven Miles, WebPros), 27% of NAV will see only short-term disruption (AMOS, Schülerhilfe, Facile, Casa.it/atHome, TechInsights, Daisy, Ekon), and 28% of NAV will be significantly exposed (Time Out, North Sails, Alessi/Globe-Trotter). 38% of the NAV is in cash, and there is -17% of NAV in other assets/ liabilities, primarily OCI's share of fund debt.

## Valuation changes in 1H'20

Unsurprisingly, the technology investments have been robust, with most increasing nearly 10% and TechInsights' investment by nearly 20%.

**Changes in 1H'20 (includes foreign exchange effects): technology investments**

| Company | Dec valuation + 1H'20 inv. (£m) | Jun valuation (£m) | Change | COVID-19 company comment |
|---|---|---|---|---|
| TechInsights | 13.5 | 15.9 | 18% | TechInsights impacted, as top semiconductor client accounts based in Asia and Silicon Valley. Ottawa lab remains open but on restricted basis (fewer people, and on shift basis) and with strict social distancing rules. Order intake and sales development impacted initially but starting to recover. |
| Daisy | Equity 11.0<br>Debt 15.8 | Equity 10<br>Debt 16.4 | Equity-9%<br>Debt 4% | Limited impact in year to Mar 20 (Daisy's FY20), as UK entered into lockdown in late March. April and May trading +10% revenue and +8% EBITDA versus COVID- 19 projections, although down on prior year (PY). Debt increased with interest roll-up. |
| Ekon | 17.1 | 18.4 | 8% | Revenue and EBITDA down 9% YTD vs. budget lead generation up +69% on PY, but bookings remain below budget and FY. Notable new business shift to SaaS outperforming budget/PY. |
| Contabo | 4.9 | 5.3 | 8% | No visible impact to date. April, May and June 2020 have generated highest revenues for Contabo to date. |
| WebPros | 44.4* | 46.3 | 4% | No visible impact to date. Live sales/billing data showing no adverse impact. |

**1H investment at cost. Source: OCI, Hardman and Co Research*

The education investments have been more mixed, with Ocean Technologies seeing no impact, while ACE's model is less certain.

**Changes in 1H'20 (includes foreign exchange effects): education investments**

| Company | Dec valuation + 1H'20 inv. (£m) | Jun valuation (£m) | Change | COVID-19 company comment |
|---|---|---|---|---|
| Career Partner | 59.2 | 61.3 | 4% | Online (~50% of revenues): acceleration in intake growth will likely result in full year ahead of plan; Dual Studies (~35% of revenues): small miss against summer semester intake budget will be compensated by winter intake and additional marketing measures. Full year therefore expected to be on target. |
| Schülerhilfe | 47.1 | 46.8 | -1% | All centres closed March to May, in line with lockdowns. Existing customers were retained, but new enrolments dropped significantly (to 80% against plan at peak). Most centres now reopened and enrolments now trending back towards pre-crisis levels (at ca.80% vs. 2019). |
| ACE Education (AMOS) | 13.6 | 12.5 | -8% | France initially in lockdown, with schools and all non-essential public buildings closed. All teaching now taking place online. Minimal financial impact on current-year performance expected, as students have paid upfront for current year. |
| Ocean Technologies | 22.2* | 23.3 | 5% | Includes add-on deals. No negative impact on existing revenue base so far, due to highly resilient business model. No slowdown in customer collections. |

**includes Dec valuation £19.3m + £2.9m on 1H investment in 1H'20. Source: OCI, Hardman and Co Research*

Unsurprisingly, the greatest impact has been seen in the consumer investments but, even here, there have been some investments that have made gains, especially those online. The forex effect can be material; for example, at Casa.it & atHome, £2.7m of the increase is due to forex and just £0.3m from an underlying valuation uplift.

**Changes in 1H'20 (includes foreign exchange effects): consumer investments**

| Company | Dec valuation + 1H'20 inv. (£m) | Jun valuation (£m) | Change | COVID-19 company comment |
|---|---|---|---|---|
| Casa.it & atHome | 24.8* | 27.8 | 12% | atHome – Property & Auto: 100% discount granted for billings in April on recurring products and 25% discount in May. Mortgages: decrease in leads due to lockdown; notary meetings deferred, pausing atHome revenue generation. Casa.it: On-time renewals in March 60%, rebounding to April 82%, May 88% and June 86% (versus ca.85% pre COVID-19). Traffic & leads rebounding and now above pre COVID-19 levels. *Hardman & Co comment: valuation risen, despite partial sale of atHome stake, given increased online activity,* |
| Facile | 35.3 | 40.6 | 15% | Limited disruption from operational perspective. Traffic volumes initially down ~30%, with revenues and EBITDA in March and April broadly in line with prior year. Assume trading will be in line with budget for remainder of year. *Hardman & Co comment: valuation rising, reflecting likely acceleration of online price comparison searches.* |
| Time Out (existing holding) | Equity 76.2<br>Debt 23.0 | Equity 23.9<br>Debt 0 | -68% | Share price fallen 68%. Debt repaid in re-financing completed in June. All Time Out Markets globally shut as of 16 March 2020, with Lisbon re-opening in July and other markets expected to re-open over July and August. Media side saw significant reduction in advertising demand, given Time Out's exposure to leisure and hospitality industry. |
| North Sails | Equity 33.0<br>Debt 73.5 | Equity 35.4<br>Debt 96.0 | Equity +7% | Most major production facilities been closed for period of time. US facilities stayed open, but with limited capacity. Orders initially reduced to ca.50% of capacity; however, latest order book more in line with prior year. Staff furloughing schemes been in place across group, and discretionary costs cut to preserve liquidity in short term. *Hardman & Co comment: valuation, we understand, driven by long-term prospects that look through COVID-19 disruption. Supported by strong re-bound in apparel business once lockdown stopped. We note Global Yacht Group (GYG) share price rose from 63.5p end-2019 to 76.5p end-June 2020 (up 20% in 1H'20.* |
| Iconic BrandCo (Alessi) | In Iconic BrandCo | In Iconic BrandCo | | All owned and concession stores in mainland Europe closed, along with HQ and warehouse, due to government lockdowns. Lockdowns have eased across much of Europe, Asia and America, with Alessi's retail activities now open across all locations. |
| Seven Miles | 23.3 | 25.1 | 8% | Despite Germany having been in lockdown earlier in the year, Seven Miles continues to trade in line with business case. Products sold in grocery stores, gas stations and supermarkets, which remained open throughout lockdown (with only ca.5% of POS closed). |
| Iconic BrandCo (Globe-Trotter) | 15.2** | 16.2 | 5% | Globe-Trotter: sales during lockdown impacted by COVID-19-related government restrictions and store closures. Following lockdown and stores/factory re-opening, early indications of trading recovery to pre COVID-19 levels. |
| Time Out (new equity) | 21.2 | 24.0 | 12% | New shares were bought at 35p in June re-financing. At end-June, valuation was 39.5p (current price 38.5p). |

**December valuation £40m excluding £15.2m value of atHome stake sold. Forex accounts for 90% of uplift. **includes Alessi December valuation £7.5m + Globetrotter acquisition £7.7m of 1H'20 acquisitions (excludes capitalised deal costs). Source: OCI, Hardman and Co Research*

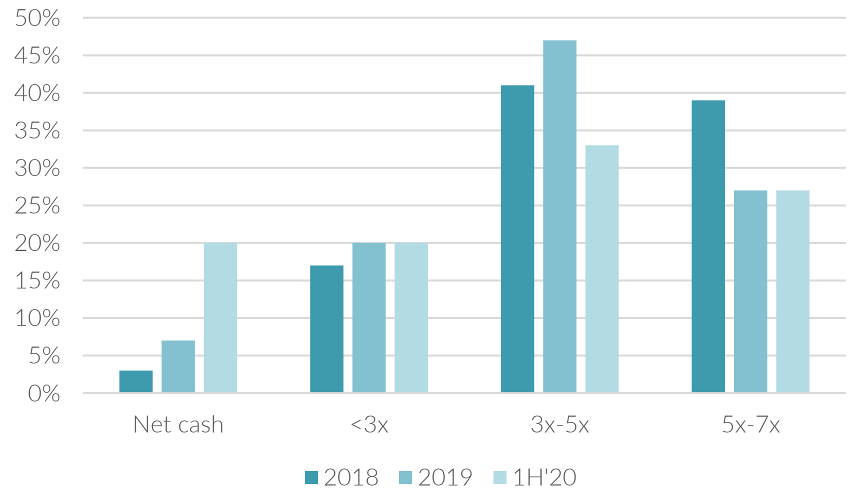
# Risks

*By number of companies, average debt is 3.5x EBITDA, marginally down on 2018, due primarily to mix*

## Investee company gearing

The chart below shows the latest distribution of gearing in the underlying companies (as measured by net debt as a multiple of EBITDA). At the end of 2018, the average net debt was 3.8x; it was 3.7x at end-2019 and 3.5x at end-June 2020. The average multiple has come down because there are more companies in the 3-5 multiple bracket (i.e. mix), rather than because of underlying debt falling materially, although we note that the Time Out debt has fallen significantly on its restructuring. We also note that, where a new business is acquired with a build and buy strategy, debt may increase over the investment holding period. This effect is likely to be partially offset by earnings growth generating cash, which may be used to pay down debt.

**Proportion of portfolio (by number of companies) with different levels of net debt/EBITDA**




*Source: OCI presentations, Hardman & Co Research*

*Larger, more established businesses have more debt. Aggregate total debt/EBITDA around a multiple higher than average by company. We understand this total number is also on a gentle decline.*

The chart above is by number of companies, and we note that the highest geared companies are those where OCI's investment is largest. Consequently, the total debt to total EBITDA is, we understand, a multiple higher. We also understand that this is a slight reduction on the prior year, with the total portfolio slightly lower-levered overall. Looking forward, this should fall as investee companies deliver growth and synergy benefits, partially offset by financing further add-on investments.

*Time Out highly geared relative to earnings, has income streams sensitive to restricted customer movement and has been investing to grow its Markets business.*

## Higher-risk company: specific considerations

As a business focused in discretionary leisure, Time Out (TMO) was always likely to see an above-average impact on business through the COVID-19 crisis. The losses were compounded by the ongoing costs from recent investments in building the "Markets" business. As a listed business, TMO's share price reflects this exposure, with a fall from ca.122.5p at end-December to its current level of 38.5p (end-June 39.5p). The impact on OCI's NAV reflects i) the £51.2m fall in value of its pre-COVID-19 holding, and ii) the £2.7m uplift from the shares bought in the placement. Combined, there was a net cost of £48.5m (26p off NAV per share, or 8%). Slides 47-48 of OCI's 30 July 2020 Capital Markets Event presentation give more details on its recent trading and outlook.

TMO's risk reduced significantly following a placing and open offer raise in May and June (gross proceeds £49m), which is intended to ensure liquidity headroom through to November 2021. TMO significantly reduced balance sheet gearing by repaying

OCI's direct debt and interest (£22.5m and £4.5m, respectively). It also renegotiated €22.6m (£20.2m) of outstanding debt facilities from Incus, with repayments with all interest and principal repayments delayed until November 2021 (details were given in the proposed placing announcement of 22 May).

In the placing, OCI bought 36m shares directly (cost £12.6m) and, on a look-through basis via Oakley Fund I, it bought a further 24.7m (OCI cost £8.6m). Given the £27m repayment of debt and interest, the net OCI investment reduced by ca.£5.8m. The residual holding is now 67.4m shares held direct and 56.6m shares held in on a look-through basis in Oakley Fund I.

*North Sails has high gearing. While some elements of business likely to be defensive, there are other elements, including retail in Italy, that were sensitive to current market conditions. Comparator GYG share price up strongly on year-end.*

OCI has £35.4m equity exposure to North Sails through Oakley Fund II, plus direct debt of £96m (December equity £33.0m, direct debt £73.5m). North Sails is over half the value of Fund II, to which OCI had lent a further £10.2m as at end-December (June data expected with the September announcement). As we detail in *Appendix 4* of this report, this business is involved in the sailing industry, but the different elements of this business are likely to show differing sensitivities, and, pre-COVID-19, it was making steady progress (delivering 2017-19 annual EBITDA and revenue growth of 11%). As an industry, high-end sailing typically is later in the cycle than the mass market, and it has elements of the business that could benefit from an extended life of existing sailing boats, with more refurbishment, rather than the acquisition of a new boat. However, it also has a powerboat business, which is likely to see more immediate losses, and the apparel business has shops in Italy that have been closed to customers. We note that North Sails is a global business based in the US, which generates some geographical diversity.

The outlook for the sailing business is hard to call and reflects factors like the number of regattas held. It is not a direct comparator, but we note that GYG's (Global Yacht Group) share price rose from 63.5p at end-December 2019 to 87p in mid-February. It then fell to 50p in late March, before recovering to 76.5p at end-June and to the current level of 79p, i.e. above the year-end level. Slide 46 of OCI's 30 July 2020 Capital Markets Event presentation gives more details on its recent trading and outlook, noting the strong rebound in apparel sales once lockdowns were ended.

*Iconic BrandCo: high-end luxury goods in Alessi and Globe-Trotter*

Founded in 1921, Alessi is a producer of high-end premium consumer goods. Partnering with renowned designers, Alessi creates iconic household products with a focus on tableware and kitchenware. It saw a 30% drop in 1Q revenue, but it reports a robust orderbook through its supermarket distribution and in online sales. Slides 49-50 of OCI's 30 July 2020 Capital Markets Event presentation give more details on Alessi's recent trading and outlook.

On 4 March 2020, OCI announced the acquisition of a majority stake in Globe-Trotter, the British luxury luggage brand, for £10.6m (£7.7m injected to date). While sales were impacted during lockdowns, there are early indications of a recovery to pre-COVID-19 levels. Slides 51-52 of OCI's 30 July 2020 Capital Markets Event presentation give more details on this unit's recent trading and outlook.

*Daisy – high debt gearing but supported by structural growth, and acquisition synergies should be coming through*

Daisy (June equity Oakley Fund II £10.0m, direct debt holding £16.4m) is the number one independent UK provider of communications, IT and cloud services. It should benefit from integration synergies following the December 2019 completion of the acquisition of ISG. As a business, Daisy was affected by slower overall corporate activity, we understand, leaving the last 12 months' EBITDA slightly down on the prior year, despite its significant subscription revenues. We note that Daisy, however, has high gearing (6x on last disclosed numbers). Slides 28-29 of OCI's 30 July 2020 Capital Markets Event presentation give more details on Daisy's recent trading and outlook.

*WebPros: gearing approaching ca.8x on historical EBITDA, but seen recent price increases and on run rate closer to ca.6.75x. Supportive, well-financed majority backer.*

WebPros (post year-end deal means investment is via Oakley Fund IV at a cost of £46m). As a business (a global Software as a Service (SaaS) platform for server management)), we see structural defensiveness from the growth in this market. There may be an element of sensitivity to overall business activity and a reduction in customer appetite to commit to investing in platform changes. Additionally, we understand the gearing level (as measured by net debt to EBITA) is ca. 8x – among the highest in Oakley Funds, and so in OCI's portfolio. However, the buyer of the majority stake (CVC) is a strongly capitalised PE business, which is in a position to provide significant financial support to the business, if required. We also understand that recent customer price increases will see debt/EBITDA fall to ca.6.75x. Slides 36-38 of OCI's 30 July 2020 Capital Markets Event presentation give more details on its recent trading and outlook.

*Oakley supportive partner, providing expertise and financial support as appropriate*

We understand that, across all these businesses, Oakley has been actively engaged with management (often daily) to provide operational support and as appropriate financial backing. With TMO, there was a debt for equity swap. Oakley executives were also directly involved in the capital raise process. We identify below how, in recessions, such support has led PE-backed businesses to outperform their peers.

## Gearing other than at investee company

*Need to also consider gearing at i) OCI itself – £261m cash, no debt, some liquid assets and ii) at each Fund level. In total, these appear to have risen in 1H'20.*

Investors need to consider all layers of gearing:

- **OCI** – the company has cash of £261m, no debt and £125m of debt investments, which may be liquidated/run down relatively quickly to provide liquidity. While OCI has the power to borrow money in any manner, the directors have stated that they do not intend to borrow more than 25% of the NAV. We note that OCI is exceptionally well placed to exploit any opportunities arising in the near future.
- **Oakley Funds** – Oakley Funds had drawn facilities from Investec, which, at 31 December 2019, were €21.8m, €100.9m and €156.1m in Fund II, Fund III and Fund IV, respectively. OCI's share of these liabilities is ca.£70m, or nearly 10% of the gross portfolio, and was reported in net other assets and liabilities on page 20 of the 2019 Report and Accounts. We await the updated June numbers but, as OCI's net other liabilities (which include its share of the fund's external debt) have risen by nearly £50m, we believe there will have been greater drawings on these lines. In addition, the funds had facilities provided by OCI directly (£14.6m at end-December).

# Investee company support in crisis

*Both Oakley Funds and OCI have liquidity to support investee companies*

We believe the response to the COVID-19 crisis is evidence of the value that can be added by having a strong PE backer such as Oakley/OCI. At the OCI level, there is the liquidity to support commitments to Oakley Funds and direct investments should capital injections be necessary/desirable for M&A or to strengthen balance sheets. Oakley Funds' committed capital structure gives much more certain access to capital than a non-PE-backed company.

*Oakley's own business being managed to avoid risk*

At the Oakley level, it has ensured that its own operations are covered by continuity plans, and it has established a portfolio dashboard to prioritise responses and share best practices. Slide 16 of OCI's 30 July 2020 Capital Markets Event presentation gives the dashboards for March and June 2020, and shows how the outlook has improved by company over this period.

*Investee companies can get incremental expertise and advice in financial planning, supply chain management, preparing for operational disruption and best practice*

For investee companies, there is operational support that is simply not available to standalone entities to assist in the assessment, management and mitigation of risks as conditions evolve. With interests in a range of countries at varying stages of the virus development, lessons learnt in one area may be useful in preparing others for the effects of both lockdowns and re-openings. What, in practice, this means is that Oakley has provided expertise and best-practice advice on:

- Ensuring financial resilience, with input into detailed cashflow modelling, working capital management and lending facilities.
- Improving supply chain robustness, including using the entrepreneur network to identify other suppliers, as well as using their sector expertise to help with detailed analysis of critical supply threat.
- Preparing for operational disruption, including adopting best-practice contingency planning using the experience of the companies in countries with more advanced progression of the virus to improve portfolio company resilience.
- Providing advice and best practice transfers to protect employees and customers.

## Some of the winners/attractive re-investment returns

*Digital business may well see market share gains following crisis*

Oakley Funds' and so OCI's portfolio investments have, for some time, been focused on businesses with a strong digital presence (65%) and where revenue streams are on a subscription basis (71%). Such businesses should show considerable resilience and, indeed, may see market share gains. For example, in Italy, the online property and price comparison markets had been well behind many countries in their development. We understand that activity in lockdown showed an improving trend. While there was no car insurance required during lockdown, the fact that potential customers have been looking at the sites bodes well for an acceleration in the development of such businesses and so their long-term value.

*Re-investment opportunities likely to be material in six to 12 months' time*

OCI is a long-term investor. The dislocation associated with an economic downturn is likely, over time, to see more opportunities for new investments at more attractive pricing multiples. This is exactly what was seen in 2007-10, as OCI was able to invest cash at very attractive multiples.

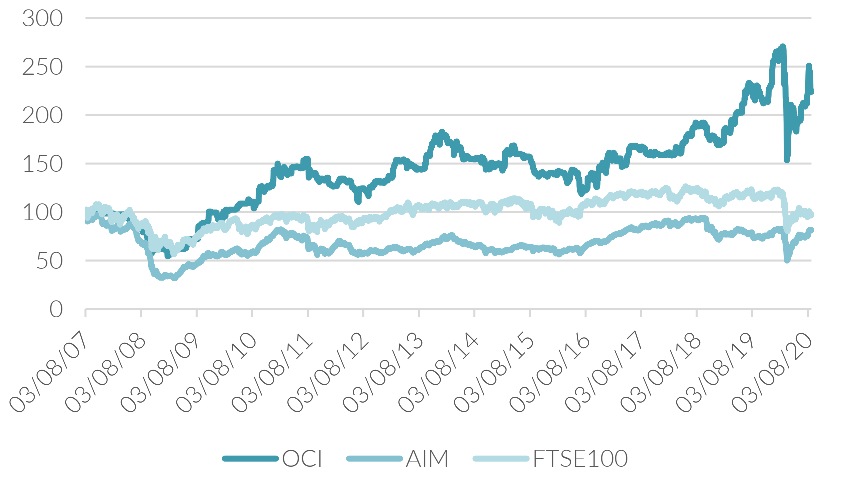
# Investment attractions

## Long-term market-beating performance

*OCI share price significantly outperformed markets over long term*

Since its market quotation in 2007, OCI's share price has significantly outperformed UK indices.

OCI share price compared with AIM and FTSE 100 (indexed to 03/08/2007)



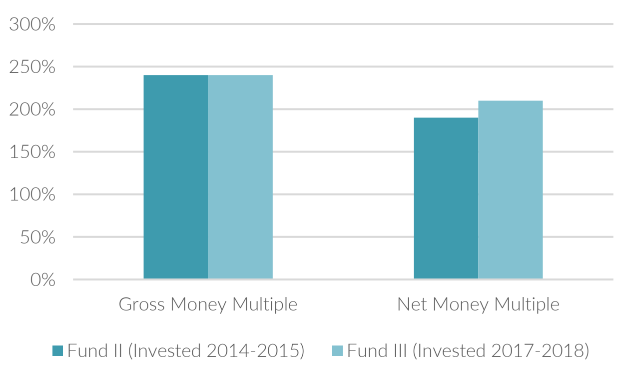

*Source: Alpha Terminal, Hardman & Co Research*

*Driven by investment process that delivers value. Gross IRR on Oakley II and III Funds (main investments) 38% and 48%, net of expenses 29% and 42%, with investors doubling their money.*

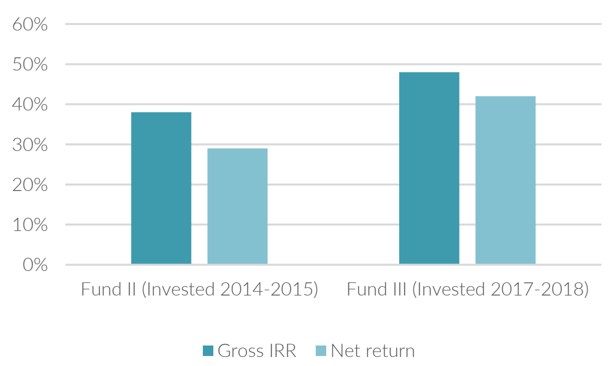
This has not happened by accident, but reflects an investment process that delivers value. The charts below show the total money multiples (i.e. realisations or live valuations as a multiple of cost) and internal rates of returns for Oakley Funds II and III. Fund 1 has significantly lower returns, but it does not reflect the current investment strategy, with i) two positions in financial services, a sector in which Oakley no longer invests, and ii) losses on TMO, and Oakley is no longer investing in deep turnaround situations.

Looking at Funds II and III, not only are money multiples and IRRs high, but they have increased with more recent Funds. The reason is that the gap between the gross and net IRR is sensitive to the level of performance. With lower levels of performance, the management fee is a fixed 2% of commitments and represents a much higher proportion of returns when the latter are low.

Oakley Funds' money multiples (x)




and gross and net IRRs (%)




*Source: OCI slide 19, 30 July 2020 Capital Markets Event presentation, Hardman & Co Research*

*In realised portfolio, average 3.5x cost and 48% IRR. Excluding couple of financials (sector no longer invested in), multiple rises to 3.9x cost.*

## Realised portfolio

A realisation event, on average, has seen a 34% uplift on the last book value, and is an important part of value creation. Since 2007, OCI has benefited from 17 Oakley Fund investment realisations at an exit multiple of 3.5x costs, and an average IRR of 48%. The table below shows all the realisations to date. Fund I included two financial sector investments (Monument and Broadstone), both of which were realised at a loss. Oakley Funds are no longer investing in this sector. Excluding these investments, the Fund I gross exit multiple of cost was 3.6x (up from 2.9x), and the total multiple rises to 3.9x cost (vs. 3.6x reported) and the IRR to well above 50%. We understand that the final IRR of Inspired, following the sale in 2020, was 43%, with an uplift on the level reported in December (shown in the table below).

**History of financial returns on realised investments (up to Dec'19)**

| £m | Date invested | Cost of investment | Proceeds | Multiple of cost (x) | Gross IRR |
|---|---|---|---|---|---|
| **Fund I** | | | | | |
| Headland Media | Jan'08 | 5.7 | 15.1 | 2.7 | 28% |
| Host Europe | Apr'08 | 59.8 | 146.5 | 2.4 | 45% |
| Daisy plc | Apr'08 | 2.3 | 90.9 | 38.2 | 75% |
| Monument | Jun'08 | 4.3 | 1.8 | 0.4 | -11% |
| Verivox | Dec'09 | 5.3 | 78.3 | 14.9 | 72% |
| Broadstone | Nov'10 | 34.2 | 6.3 | 0.2 | -34% |
| Emesa | Mar-11 | 14.7 | 52.0 | 3.5 | 109% |
| Intergenia | Dec'11 | 30.4 | 55.0 | 1.8 | 32% |
| Inspired | Jul'13 | 23.9 | 70.5 | 3.0 | 36% |
| **Total Fund I** | | **181.1** | **516.4** | **2.9** | **44%** |
| | | | | | |
| **Fund II** | | | | | |
| Intergenia | Jan'14 | 49.6 | 69.1 | 1.4 | 46% |
| HEG | Jan'15 | 20.0 | 42.4 | 2.1 | 40% |
| Parship Elite Group | Apr'15 | 56.7 | 266.3 | 4.7 | 118% |
| Verivox | Aug'15 | 21.5 | 53.6 | 2.5 | 44% |
| Facile | Sep'15 | 70.5 | 262.6 | 3.7 | 51% |
| Damovo | Jan'15 | 10.5 | 45.1 | 5.4 | 56% |
| **Total Fund II** | | **228.8** | **737.4** | **3.3*** | **63*** |
| | | | | | |
| **Fund III** | | | | | |
| WebPros | Apr'17 | 65.7 | 452.2 | 6.9x | 152% |

**in its June disclosure to date, these numbers fall to 3.1x and 59%, but we do not yet have the detailed company disclosure. Source: OCI February 2020 presentation, slides 46-48 (pre disposal of Inspired and At Home), Hardman & Co Research*

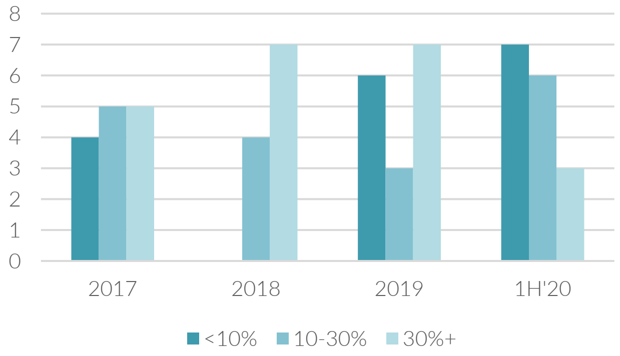
*Live portfolio shown 17.5% (ca.30% pre COVID-19) EBITDA growth, continuing long track record of superior growth*

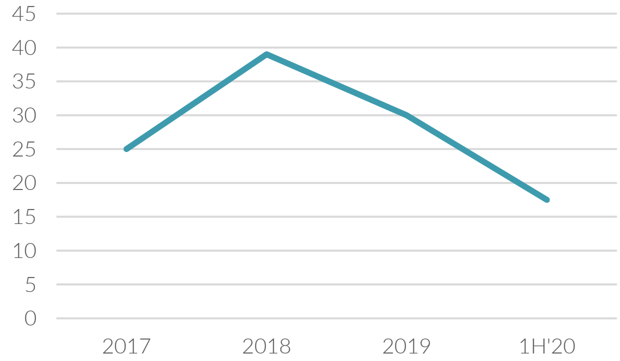
## Strong growth characteristics of current portfolio

In looking at whether OCI can sustain its market outperformance, we believe a key consideration is the growth profile of the current portfolio. As can be seen in the charts below, the businesses have been managed to deliver EBITDA growth. In 1H'20, the average growth over 12 months was 17.5% (FY'19 ca. 30%), well ahead of the market. We understand, from comments made at the Capital Markets presentation, that there was positive average EBITDA growth in 1H'20, despite the impact of COVID-19. We believe that Oakley helps enhance the operational performance of its businesses and that an accelerated growth rate may be expected over the life of its investment.

The fall in the average growth rate 2019 on 2018 (30% against 39%) reflects the addition of new companies where this value enhancement has yet to be seen. In 2019, there were seven companies delivering more than 30% growth – the same number as in 2018 – but newer businesses saw a jump in the proportion of lower-growth businesses. In 1H'20, the annual growth rate fell to 17.5%, given the impact of COVID-19.

| Number of companies delivering different growth rates | Average annualised growth rate in year (%) |
|---|---|




*Source: OCI results and 30 July 2020 Capital Markets presentation, Hardman & Co Research*

# PE is an attractive market

*PE attractive and growing market. Still small part of total assets managed, and raising and deploying funds – so growing faster than markets overall. Companies staying private for longer, and institutions increasing weightings to it.*

PE is an attractive and growing market. The value added by PE is reflected in the number of US and European PE-backed companies rising to ca.19.3k in 2019, from 10.5k in 2007 and under 2k in 2000. The number of listed companies fell from ca.7k in 2000 to ca.5k in 2009. In its recent results presentation, Pantheon International highlighted a number of key recent themes:

- PE AUM has hit record levels but, in aggregate, it is still around the market capitalisations of the FAANG technology companies (Facebook, Amazon, Apple, Netflix and Alphabet, formerly known as Google).
- Global fund raising was broadly stable in 2019, and new deal activity is keeping pace with fundraising. The ratio of dry powder to deployment is still around two and a half years.
- Companies are staying private for longer.
- Diversity in performance between managers is very wide.
- Debt levels have been rising.
- Institutions are increasing their exposure to private markets, many from a small or zero base, with target allocations materially higher than current allocations.

*Market dynamics very different in mid/small buyout space than larger funds. Former seeing less re-gearing, less acceleration of entry price multiples and less dry powder.*

The larger end of the market is very different from the mid/small buyout market, with the larger end seeing nearly double the rate of growth in dry powder compared with mid-sized and small buyout funds. We also believe that larger funds have seen greater rises in debt multiples and in pricing for new deals.

*Positive long- and short-term trends reflect fact that PE adds value.*

We believe Oakley's excellent long-term track record, and the positive near-term market trends identified above reflect the fundamental fact that PE has, for a sustained period, added value. OCI is in an attractive market, and has been positioned to take full advantage of the opportunities this presents.

| Techniques used in PE market to create value | |
|---|---|
| **Stage** | **Process** |
| **Strategy** | |
| Transforming strategy | PE creates flexibility to adopt a new business model, repositioning a business within its sector, diversifying its markets and implementing a credible growth strategy. PE managers' broader market knowledge may bring insights unavailable to the standalone entity. |
| Capital expenditure | PE can provide the necessary financial resources to support business growth objectives. |
| Accretive mergers and acquisitions | Growing scale, increasing sales and operational capabilities, improving a company's position within an industry and releasing synergies to unlock growth. PE backers can also help target company sourcing, due diligence and integration. |
| Managed for exit | Part of a PE manager's skill is expertise in achieving a high-value sale. We believe that an incremental aspect to this is that the businesses are being actively managed, with the expectation that there will be corporate action. By grooming such businesses for sale and knowing potential buyers, there is inherent value creation. We note that, in the public markets, a trade sale would typically be at a premium of 25%-30% to the pre-sale price. |
| Long-term focus | Compared with public companies, a PE-backed company can afford to focus on long-term performance without the distraction of meeting short-term expectations. We believe the PE managers exert appropriate controls to ensure that there is oversight, and that this long-term focus does not become an excuse for short-term underperformance. |
| **Performance enhancement** | |
| Operational improvements | PE can generate superior top-line growth and margin expansion, helping to develop new products, geographies, enhanced sales force effectiveness, process optimisation and the use of technology. PE sector knowledge allows the transfer of best practice in a way that a small business cannot. |
| Strengthening management | Making new hires and adding industry specialists who bring fresh perspectives and the expertise that can drive the business further forward. Membership of Board and Advisory Committees is an option. The alignment of financial interests, and strategic optionality, may see the "best" possible talent attracted. |
| Active management of capital structures/finances | Using banking and debt relationships developed across a PE manager's platform can optimise funding. Additionally, PE managers bring significant financial and capital markets expertise to the businesses in which they invest – a skill base the underlying company may not have on its own account. |
| **Valuation opportunity** | |
| Lower target valuations | Many private company valuations are lower than listed ones, creating an arbitrage opportunity whereby PE companies can buy private companies and transform them over time into listed ones. |
| Fishing in bigger pool | The pool of companies PE can target is deeper and broader than the quoted market. Aberdeen Standard believes there are five times as many private company opportunities as listed ones. |
| Due diligence in PE process | The PE process itself involves extensive due diligence, often with inside management information. The depth of investigation is typically more than would be seen for most public companies – although this requires significant resourcing (see cost section below). PE managers are typically sector-focused and have detailed knowledge of potential investee companies' competitive landscapes. |
| **Corporate governance** | |
| Governance and responsible investing | OCI and Oakley believe that, through investing responsibly and considering ESG issues at all stages of the investment cycle, PE is able to manage ESG risks to generate long-term sustainable returns. PE has the resources to consider such issues when a standalone company may not. |
| Manager/shareholder alignment | Managers' and shareholders' interests are closely aligned through common ownership at all levels of the investment chain. The underlying company managements typically are incentivised with share-based performance incentives. The PE manager's performance fee is typically paid only once the fund has achieved a hurdle return (market-wide typically 8% p.a.). |

*Source: Hardman & Co Research*

# Enhanced strategic optionality

## Transforming strategy/capital expenditure

*Oakley Funds gives committed funding lines – so allowing an investee company increased options for it to transform strategy and invest for organic growth – examples include North Sails, Facile and Career Partners*

There are multiple examples where Oakley has facilitated a transformation in a portfolio company's strategy. For example, at TechInsights, where Oakley's thesis has been to transform the business from a project-based revenue model to recurring subscriptions, during Oakley's ownership, the business has made significant progress in shifting the business model, and has bolstered the senior management team, bringing new energy and dynamism to help drive growth.. Other examples of growth acceleration can be seen when Oakley Funds has invested in emerging leaders in high-growth sectors, including Facile or Career Partner.

## Accretive mergers and acquisitions

*Smaller companies doing deals more likely to add value than larger companies*

As a strategy, we are cautious where a business "needs" to make acquisitions. Too much value is often given to the target company, rather than the acquirer. However, it should be borne in mind that Oakley Funds' investee companies are in the middle market, where there is more opportunity to create value – a view confirmed in research done by The National Bureau for Economic Research[1], which highlighted value destruction in big deals and modest accretion in smaller ones. In its FY'19 results presentation, OCI noted that 60% of portfolio companies had, at that stage, undertaken M&A deals.

*ca.60% of Oakley's companies done deals. Some were bought with build and buy strategy at core.*

Examples of Oakley's portfolio companies doing deals that have added value include achieving economies of scale (e.g. the completed acquisition by AMOS of ESDAC, a group of design and communication schools, its second bolt-on acquisition,), or build and buy maybe having been the rationale for an initial investment. In 2019, Oakley Fund IV acquired controlling stakes in two leading maritime e-learning providers, Seagull & Videotel, based in Norway and the UK, respectively (now re-branded Ocean Technologies). The integration of the two businesses will allow them to collaborate and share knowledge and resources, as well as build a platform for further M&A in existing and adjacent markets.

*Key advantages to Oakley-backed company doing deals are i) deals can be completed more rapidly and with more certainty, ii) Oakley's network can identify more opportunities, iii) deals can be done with smaller, private companies on lower multiples, iv) deal analysis and execution are core competencies for a PE house, v) acquisitions generally option, not necessity, to grow.*

The key considerations as to how and why OCI investors benefit from value-added M&A are:

- Having a well-funded backer, with committed finance available to support deals, means deals can complete more quickly, potentially at better prices, and with more certainty, than on a standalone basis.
- Oakley's network of entrepreneurs in each sector is likely to be tapped into potential target opportunities and, importantly, may have relationships with the decision-makers in those companies.
- Often, smaller companies can be bought at lower EBITDA multiples but, by achieving scale through M&A, a larger group can often be sold for a higher multiple on exit. The same applies to buying private companies over public ones.
- Acquisition is a core competency required in PE, with, as we note below, Oakley Funds' investments having a record of improving valuation ratings.
- In aggregate, the investee companies of Oakley Funds, and so the OCI portfolio, are growing strongly organically, and are not in the position of being "forced" into doing deals to deliver growth.

*Oakley entrepreneur network competitive advantage for multiple reasons in investee companies doing deals*

Taking a couple of these points in more detail, the Oakley network is a valuable resource for identifying and unlocking both new investments and add-ons throughout the portfolio. One example of this is WebPros. Thomas Strohe and Jochen Berger were known and worked with Oakley for many years (from first being backed in 2011 when Fund I invested in their webhosting company Intergenia), and there have subsequently been three other deals with them. Tom and Jochen identified Plesk, having being users of the Plesk product for many years. This was an off-market deal, carving out an orphan asset from Parallels Group. Subsequently, Plesk acquired cPanel, creating WebPros. Oakley has commented that Tom and Jochen's knowledge of the industry and ability to understand and empathise with a

[1] The 2003 piece "Do Shareholders of Acquiring Firms Gain from Acquisitions?" (NBER Working Paper No. 9523, co-authors Sara Moeller, Frederik Schlingemann, and Rene Stulz) noted "Large firms have destroyed $226 billion of shareholder wealth over 20 years. In contrast, small firms, defined as companies whose market capitalization is equivalent to the smallest 25 percent of companies listed on the NYSE in each year, created $8 billion of shareholder wealth through their transactions."

fellow entrepreneurial owner were instrumental in unlocking the deal and demonstrating that Oakley was a good partner for entrepreneurial founders and managers. The combination was transformative for the group, creating a single platform of scale, with strong geographical coverage across the US and Europe – a value recognised in its sale at nearly double the book value.

*M&A not required by portfolio to grow. Vast majority of EBITDA growth organic.*

Mergers and acquisitions are important to some other Oakley Funds, and so for the OCI portfolio and investments. However, Oakley describes them as providing the icing on the cake. This is not the key driver to growth, however. We understand that the vast majority of the 1H'20 underlying company's 17.5% EBITDA growth was organic and that, in normal years, it has accounted for up to two thirds of total growth – a growth rate more than twice the MSCI World level.

## Managed for exit

*Managing for exit in Oakley's case starts before acquisition. Through hold period, relationships built with all types of potential buyers.*

The typical hold period for an investment is three to five years but, even prior to investment, Oakley has been identifying the likely exit routes and potential future buyers. Through the hold period, it monitors the exit environment and options, staying engaged with the potential buyers. It builds early relationships with them, and then maintains a close dialogue, well before exit is probable. As well as strategic acquirors, Oakley also has a successful track record of selling to other PE firms. We detail later in this report that there is a large and growing amount of dry powder in large funds, which are potential buyers of OCI's investments in Oakley Funds.

## Long-term focus

*Oakley manages for long-term returns, which allows opportunity for investee companies to manage and be managed through periods of underperformance, and not be forced seller*

OCI is a long-term investment, with the Oakley Funds managed to that timescale. Each Oakley Fund may take up to five years to deploy committed capital, and each holding may see several more years of management prior to exit. With such a mandate, Oakley's investments can take time to optimise returns. An example would be the 2010 investment in TMO. After a couple of years of public market share price weakness (2016-18), the market, was, until recently, giving increasing value to the strategic evolution of that business (including Time Out Markets, initially launched in Lisbon but rolled out in 2019 in Miami, Boston and New York).

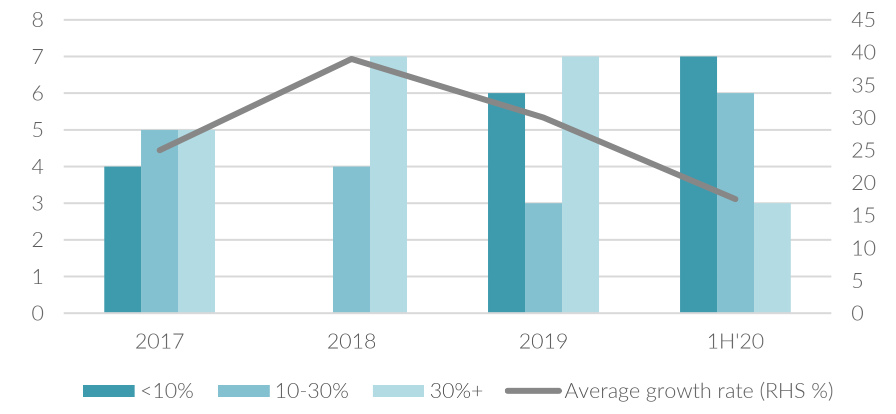
# Improved operational efficiency

*Bain analysis indicates half value creation in PE comes from improving performance – both faster revenue and efficiency. Oakley identifies growth opportunities, and also facilitates revenue and growth opportunities.*

Page 26 of the Bain report noted that half the value created by PE globally comes from operational improvements, with two thirds of this coming from revenue growth and one third from margin improvement. The investee companies in Oakley Funds, and so the OCI portfolio, demonstrate these trends having market-beating revenue and EBITDA growth characteristics. We believe part of this is buying the right growth opportunities, and another part reflects proactive enhancement of operational performance once the acquisition has been made. To give an example of how performance improves with time, in 2017, OCI advised that four out of eight of its companies owned for more than a year had delivered 30% EBITDA growth, while just one out of six held for less than year had delivered such a level of growth.

In looking at the current portfolio, as can be seen in the chart below, the businesses delivered an average ca.30% EBITDA growth, as reported in OCI's FY'19 results.

EBITDA growth rate by number of investments




*Source: OCI (excludes atHome), Hardman & Co Research*

We see three key areas whereby Oakley's supported companies can improve efficiency, notably i) operational improvements, ii) strengthened human resources, and iii) active management of capital structures/finances.

## Operational improvements

*Oakley provides finance, expertise and tools to enable manager to run business better. Using previous experience in same business line (but perhaps different country) helps accelerate operational improvement.*

OCI benefits from operational improvements that Oakley provides to investee companies, helping them create platforms for sustainable growth. While, in theory, management may be able to do these things as standalone entities, in practice, Oakley's involvement dramatically accelerates and enhances their implementation. Examples of this, in practice, include:

- TMO moved from a traditional publishing house to develop digital channels, took out costs and removed duplicated services. Marketing was streamlined, and e-commerce became leaner, as it became difficult to justify. The journalist pool was analysed and rationalised to ensure effectiveness from a commercial angle, and also to ensure that the content was concentrating on the areas in which the consumer was most interested and active. Oakley helped identify the opportunity to invest in the Time Out Markets, and shifted the focus to this area of the business, once the initial success was proven and the route to profitability clearly demonstrated.

- With the thesis for Ekon centred on the migration to SaaS revenues and a large market to grow into, Oakley is progressing with its strategic aims. Ekon has now completed the build-out of the sales and marketing function, which were previously under-resourced and under-managed, and it launched a refreshed brand in January, which has helped to significantly increase lead generation and pipeline development. The office has relocated to the tech hubs of Barcelona and St Cugat, further helping with the business's market positioning.

- Oakley used its previous experience of helping Verivox to diversify into new product verticals to support Facile in diversifying beyond its core motor insurance offering. While it had launched some new lines in 2012, shortly before acquisition (2014), insurance revenues still accounted for ca.90% of group revenues. By 2019, they accounted for just over 60% of group revenues, with the non-insurance product lines having accounted for almost half of Facile's revenue growth during this period. Oakley also supported Facile in optimising its operations through greater analysis of return on marketing spend and conversion funnel optimisation, helping to convert website traffic more efficiently and grow profitability.

- At Casa.it and atHome, Oakley drove a restructuring of the cost base, which has been bloated compared with its peer group. Its market/sector knowledge meant it could identify ineffective marketing spend, which was generating very low amounts of leads. Oakley also led helped identify the need to wind down the loss-making French operations.

## Strengthening human resources

*Oakley works in partnership with management; cultural fit is important to acquisition decisions. It has rarely chosen/needed to change leadership teams.*

In a separate section below, we highlight how Oakley's network of entrepreneurs generates new opportunities in which to invest. This is a core competitive advantage that extends to strengthening management too. It provides management teams with the opportunity to cross-fertilise proven best practice, as well as established "playbooks", which take the lessons learnt in one company to be re-used in others.

Oakley's approach is to be collaborative with existing leadership teams, buying into businesses with good cultural fits, and ensuring management is on side. We understand that Oakley rarely replaces CEOs and, where this is done, it is typically because individuals have planned to step away from the business. On average, across the PE market, around half the management teams are changed. This degree of continuity of management adds value to OCI investors in two ways: i) corporate memories are maintained, and so company-specific experiences of challenging conditions do not have to be re-learnt at a cost; ii), it means that the existing and new entrepreneurs stay in the Oakley network, providing incremental skills in other businesses and acquisition opportunities in due course.

For Oakley, there have been investments (e.g. Contabo) where the founders of the businesses have wanted to step back, but they have also wanted to ensure that the business would continue. Oakley, in the case of Contabo, working alongside three of its network partners in the webhosting space, was able to propose an experienced new management team, which was instrumental in securing the deal.

*Specific expertise bought in when required*

It has also brought on-board specific expertise – for example, helping TMO to move from a paper platform to an internet offering required a different skill set, and Oakley had the market contacts to identify relevant staff. The same happened at North Sails Apparel, in its shift from fashion to technical. Oakley may also look to augment management teams by adding specific senior positions – for example, replacing or installing a new CFO to better institutionalise the finance function. The key message, though, is that this is in collaboration with the leadership team. Oakley sees developing relationships, where they can work again and again with entrepreneurial managers, as a key competency and advantage.

## Active management of capital structures/finances

*Oakley actively engaged in debt structuring and negotiation to optimise terms and flexibility… but gearing kept at modest levels and not key driver to long-term performance*

Oakley actively works on streamlining the capital structures of portfolio companies and has undertaken a number of re-financings, as companies have exhibited strong growth and been able to secure debt. On entry, typically, investments are equity-funded and, as companies develop and grow, there is often the opportunity to put debt into the capital structure. More sizeable businesses can more easily access debt at a lower cost of capital, and Oakley is actively involved in debt negotiations. Typically, it helps organise a panel of banks, having identified with the investee company what critical terms are acceptable/required. As can be seen in the section on gearing below, the portfolio companies of Oakley Funds, and so OCI, do not have excessive gearing. It sees that the value added is improving operational performance, and buying low/selling high, not re-gearing. In our discussions with Oakley, there was much emphasis on i) the value of building strong banking relationships, where the bank feels secure that the investee company is well supported if things go wrong, ii) the importance of flexibility in financing terms, and iii) having significant cushions against any covenants (the mid-market space has seen increasing prevalence of cov-lite documentation, but is not at a zero covenant).

*Not key driver to outperformance*

We note that, in 1H'20, there was one re-financing, in 2019, three re-financings totalling £30m, in 2018, a re-financing of £15m, and, in 2017, a £22.8m re-financing from TechInsights and Facile. Oakley typically undertakes re-financings where business performance has proven to be strong, and also where there is strong visibility of future performance – for example, where high recurring revenues have been established. The limited scale of re-financing, and these limits on when it is done, show that it is not a key driver to performance or introducing risk for OCI investors.

# Valuation re-rating

*Bain report also indicates half value added in PE comes from multiple expansion – buy low/sell high*

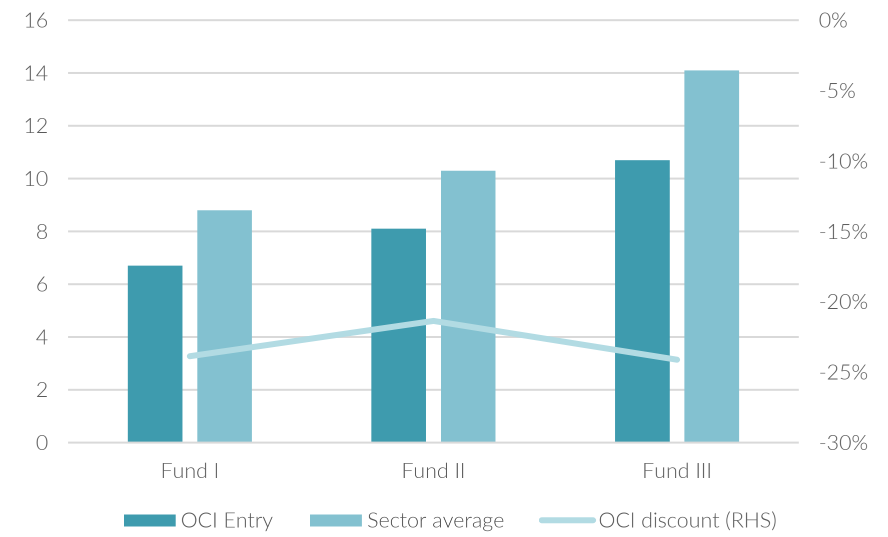
Page 26 of the Bain report indicates that roughly half the value created by PE globally comes from multiple expansion. In this section, we review how Oakley generates such value for OCI investors.

## Buy low

*Oakley indicates its average buying EV/EBITDA multiple been consistently 21%-24% below comparable deal multiples for Funds I-III*

Oakley advises that, in 2019, its signed £75m new investments were at an average EV/EBITDA multiple of 9.7, a rating that it expected to fall to 6 in year three. The 9.7x may be compared with peer deals that averaged 13.1x[2]. Paying multiples well below comparable deals is a long-term trend (shown in the chart below). Since inception, OCI has benefited from Oakley Funds buying companies on a 21%-24% EV/EBITDA multiple discount to prevailing deals. This is a broadly-spread feature, with, in all but one of the investments made in Fund I and II, the entry rating being below the market (and that was an investment of just £4m – under 1% of NAV).

**Oakley Fund and comparable-deal average entry EV/EBITDA multiples (LHS) and discount the Fund achieved (RHS, %)**




*Source: OCI, Hardman & Co Research*

[2] OCI 2019 Report and accounts. For each investment, Oakley records a peer set average of transaction/trading comparisons. Examples for some of the assets used as comps are as follows: i) Seven Miles: Blackhawk, Jochen Schweizer, Virgin Experience Days; ii) Contabo: GoDaddy, Endurance International, iomart Group; iii) Seagull & Videotel: Mintra, Atlas Knowledge, Seagull (previous transaction); and iv) Akon: Sage, SAP.

*Three quarters of deals uncontested and, in 90%+ of occasions, Oakley first PE house approached. This has been achieved through Oakley's network of entrepreneurs, due diligence process, sector knowledge and skill base to manage complex situations, such as carve-outs*

A core feature of Oakley's acquisitions is that over three quarters of deals are uncontested and, in more than 90% of cases, it is the first PE house approached. We believe the low price achieved and these statistics reflect:

- Most deals are sourced from Oakley's network (see section below), using their relationships, market expertise and knowledge.
- Expensive deals are screened out early in the due diligence process. With a highly concentrated portfolio, Oakley invests only in opportunities likely to add value.
- The sector skill set advantage is compounded by a focus on complex investment situations – for example, carve-outs, where there may be limited competition with the right technical and financial skills to structure deals in that market.
- Carve-outs may also have a more willing seller, who, having identified a business as non-core, has the objective of an effective sale to be able to focus on the business's core operations.

*Private markets give huge number of potential opportunities – many more than public markets*

Looking forward, Oakley's model gives it access to a much larger potential target base than investors in the quoted sector. *Inter alia*, it can access deals from i) private companies – by way of example, in Germany, the Mittelstand companies with turnover of €50m-€250m are around four times as numerous as larger companies; and ii) carve-outs from public companies.

## Avoiding most downsides

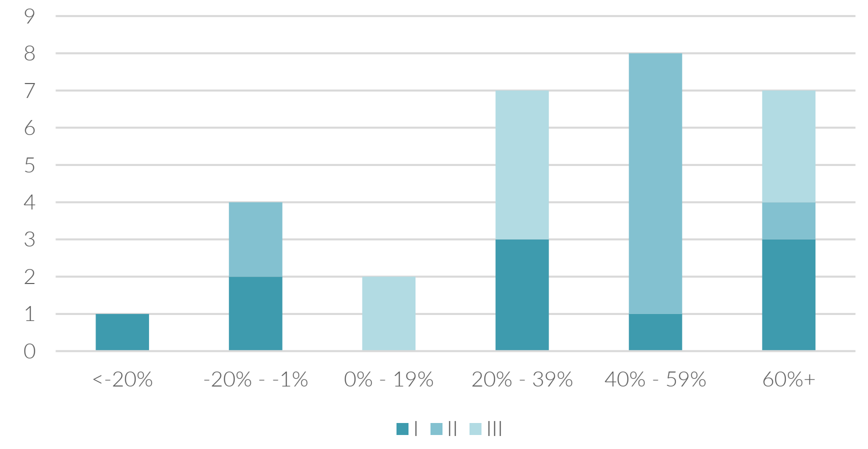
*Extensive due diligence more likely to identify potential downside but can be expensive to do. By way of example, Oakley spent seven months getting to know WebPros and nine months on Career Partners.*

One reason PE has a high cost base is because of the extensive due diligence/getting-to-know-you work done before an investment is made. A concentrated portfolio gives less leeway for error, and Oakley takes the time and effort to examine companies in great detail, usually with the benefit of inside information, which is unavailable to public sector investors. In many cases, it is not the legal due diligence itself that takes a long time, but rather Oakley tracking the business and its performance, meeting with management, and getting to know the company and leadership team. We note that, in Plesk (WebPros), Oakley had seven months of exclusivity due to the complexity of the situation. In Career Partner, Oakley took nine months to work through the deal (and took just 19 days to execute it once the due diligence had been completed). Examples of downside risks that have caused Oakley to reject deals include customer concentration, geopolitical risks and regulatory risks.

*Payback for this investment visible: 82% of investments generated positive IRR, three of five negative ones under 5%, and 75% of investments earned IRR in excess of 20%*

Ultimately, the effectiveness of due diligence is demonstrated by the return achieved. As can be seen in the chart below, as at December 2019 (the latest available data), five (18%) investments have negative IRR and only two of these are realised losses (in a sector in which Oakley no longer invests). The scale of negative IRRs is generally small (-34%, -11%, -4%, -3%, -1%) relative to the positive returns made elsewhere.

**IRR by number of investments in Funds I-III, as at Dec'19**




*Source: OCI (excludes atHome) as at December 2019, Hardman & Co Research*

*Most investments outperform Oakley's forecast modelling, as evidenced by consistent beating of target 30% IRR*

The due diligence goes into the financial assessment of investments. It is important for investors to get comfort from the fact that the modelling Oakley uses before it makes an acquisition is accurate. What the chart above shows is that the target 30% IRR is consistently exceeded with a good spread by number and nature of position.

## Sell high

*Typical exit multiples ca.1.5x buying multiples – driven partly by Oakley helping business accelerate growth, but also due to knowledge of, and relationships with, potential buyers, not being a forced seller. Dry powder concentrated in larger PE funds.*

In Funds I and II, the typical exit multiple has been around 1.5x the acquisition rating. The businesses are managed with sales in mind (as detailed above) and, additionally, the higher multiple reflects operational improvements, leading to faster earnings growth (which supports a higher rating), and Oakley is not a "forced"/distressed seller. We detail below how the dry powder in PE has recently been concentrated in larger funds; this drives more competition (and higher prices) when Oakley is trying to sell.

# Enhanced investee ESG

## Governance and responsible investing

*Extensive ESG procedures in place*

ESG considerations form part of the due diligence assessment of possible targets. Once invested:

- Investee companies are required to complete Oakley's ESG questionnaire, which assesses their current level of maturity in managing five overarching ESG topics: governance, workplace, marketplace, environment and community.
- Oakley works with investee companies to understand where ESG efforts should be focused, based on an assessment of the materiality of the company's ESG impacts, and progress to date.
- Where ESG risks have been identified, they are considered at OCI board meetings, and the investee company's performance is monitored in relation to the management of ESG issues.
- Where applicable, Oakley encourages investee companies to discuss ESG issues with their top-tier suppliers, with a view to the identification and improved management of material ESG matters.

*North Sails an example of ESG in action*

We note, by way of example, North Sails, whose sea-based business is inherently intertwined with conservation and environmental protection. Peter Dubens (OCI director) is involved with a charity called Ocean Family Foundation, which promotes and actively supports marine conservation, and made the connection with the North Sails brand. Oakley's Operating Partner, Vicente Castellano, also had a strong influence regarding the ESG initiatives in the business. For example, the development of a recycled product, was high on the agenda.

## Manager/shareholder alignment

*Managers and shareholders' interests aligned through whole value chain. Investee companies have €120m in Oakley Funds. Oakley managers own ca.9.5% of OCI. Performance fees paid only on cash realisations and geared to upside.*

OCI benefits from the close relationship built between serial entrepreneurs and Oakley – a unique competitive advantage. In particular, i) there is more than €120m invested personally by current and former portfolio company managers across Oakley Funds, ii) ca.£46m (market value) is committed by Oakley Partners into OCI; iii) performance fees are paid only on cash realisations once a hurdle rate has been achieved, and are not paid on accounting values alone.

## Minority positions

In the main, OCI investments, either via or alongside Oakley Funds, represent a controlling stake of the target company. The exceptions are i) for some of the businesses, Oakley has a board seat (Facile, 21% stake), or ii) for others, having individuals from the Oakley network, who have also invested in the deal, means there is a controlling position (for example, Daisy 10% stake, where Oakley, alongside Matthew Riley, has control). Oakley also ensures that it has suitable minority protections to ensure that there is a clear route to exiting the business and veto the non-normal course of business events (e.g. new debt or acquisitions).

# Portfolio focus

## Mid-market focus

*Target EV of €100m-€400m, and Oakley looking to invest €50m+ in Fund IV and £10m-£50m in new Origin Fund. Fits Oakley's network of entrepreneurs and proven skill base.*

Oakley is focused on businesses with an enterprise value (EV) of €100m-€400m. It sees specific opportunities from i) leveraging sector champions with proven entrepreneurial skills, ii) Oakley's experience with founders and family-owned businesses, and iii) proven experience in complex situations, such as corporate carve-outs. It no longer has any interest in distressed turnaround stories that require major investments of resources with less predictable outcomes. The scale of Oakley's investment in each position has been rising, as its Funds have attracted increasingly large commitments (Fund I €288m, Fund II €524m, Fund III €800m, Fund IV €1.46bn). In order to continue to exploit the franchise built with opportunities that may arise at or below the lower end of its target range (with equity investments of €10m-€50m), in July, Oakley launched a new Fund called "Origin", to which OCI committed €75m (£68m). Fund IV is looking to make investments of €50m+.

*In mid-market, less competition, more opportunities for targets to grow, still gets cov-lite lending, targets likely to benefit more from PE expertise, and more routes to exit*

We see further advantages of being in the middle market from:

- While competition has been increasing in the mid-market, the most intensive competition and pricing in recent years have been for larger deals. One reason for low entry valuations is being in this market segment.
- Mid-market companies have more opportunities to grow their franchise and earnings, either organically or through acquisitions.
- Mid-market companies can still access cov-lite finance, a view confirmed by some of our bank (credit-sanctioning) contacts, in addition to PE contacts.
- Mid-market companies can benefit more from Oakley's expertise, as they do not have the scale to develop it in-house themselves.
- There are more routes to exit, especially to trade buyers and secondary PE buyouts (see section on dry powder below).

## Western Europe focus

*In Western Europe, less competition and more targets*

Oakley is focused on Western Europe, rather than the US, as it sees these countries as having i) strong entrepreneurial landscapes (for example, the German Mittelstand), ii) fragmented markets in their chosen sub-sectors, allowing consolidation opportunities, iii) regional variations in market development, allowing the opportunity to roll out the same strategies across different markets, and iv) beneficial socio-economic characteristics driving underlying growth in preferred sectors. Oakley's presence in the UK is also modest (under 10%), for the same reasons.

PE investment as a proportion of GDP is around a sixth of the levels in Europe, as is the case in the US, with some of Oakley's core markets (such as Germany and Italy) well below this level. The Bain 2020 Global Private equity review (page 82) highlights that, while PE has a significantly superior long-term performance to public markets in the US over shorter time scales, the advantage is less. Part of this may be the mix (especially the relative weighting to technology, e.g. FAANG) and part is likely to reflect the high levels of competition in the US. Bain identified winners as ones with clear sector specialism, focused hunting grounds, and a repeatable strategy for business improvement and scale to add expertise to target companies – OCI benefits from all these points.

## Sector focus

*Limited sector focus more likely to add value*

The Bain 2020 Global Private equity review (page 23) highlighted that a disproportionately large concentration of outperforming buyout vehicles were focused on a single or a narrow range of sectors. A much larger proportion of underperforming funds were in multi-sector strategies. Oakley Funds, and so OCI's portfolio, are in the former camp, and focused in just three sectors and, in two of them, has developed defined sub-sector niche skills, namely: i) in consumer, Oakley's core concentration within this sector is in digital consumer, with the focus being on marketing-led businesses with leading positions in their respective industries; ii) in technology, Oakley has built out from an original core competency in investing in hosting and telecoms space to a current focus on digital infrastructure companies with SaaS or managed services business models, which are capex-light; and iii) in education, Oakley sees a large and growing sector, with proven characteristics, which remains fragmented, and is still at an early stage of professionalisation. We conclude that the chosen sectors offer a balance of strong socio-economic growth, a meaningful digital-friendly focus and the economic-downside defensive qualities from education.

# Oakley's origination and other advantages

*Oakley appears to be preferred partner for entrepreneurs – driven by culture, being engaged but not over-bearing, its proven track record, direct financial alignment and expertise in a focused niche*

As we noted earlier, Oakley advises that over three quarters of deals are uncontested and, in more than 90% of cases, it is the first PE house approached. This suggests a material competitive advantage in its business origination model. In particular, in its chosen sectors, it believes it has built a network of serial entrepreneurs who will bring repeat business. It is attractive to new prospective entrepreneurs wanting finance, because i) its own culture is closely aligned to enterprise, given the track record of the founding partners, ii) it sees itself as a supportive partner, committing time and resources to back management to deliver (being engaged but not over-bearing is a fine line), iii) it has a proven track record in the chosen sectors and has built market-specific credibility, iv) direct financial alignment of commitments are backed by Oakley management teams across Funds II, III and IV (2019: ca.€120m, including €40m in Oakley's recent launch of Fund IV, 2018: €81m), and v) in its chosen niche, it has built the experience and capability to manage complex situations, such as corporate carve-outs.

*Multiple examples of repeat business, cross-fertilisation of NEDs, etc*

Ultimately, the proof of the pudding is in the eating. Oakley cites working with a number of entrepreneurs on repeat occasions, including Matthew Riley (Founder and CEO of Daisy and Executive Chair of Damovo), Thomas Strohe and Jochen

Berger (backed by Oakley since 2011, with Intergenia & HEG, Plesk & cPanel (WebPros), and Contabo), Nadim Nsouli (Inspired and Amos), Dieter Werkhausen (CEO of Schülerhilfe and member of the Seven Miles advisory board), and Tim Schiffers (CEO of Parship Elite Group and now NED at Schülerhilfe).

*Means good talent not lost when businesses sold*

Developing a close, ongoing relationship means that the "best" talent is repeatedly available. Where a PE house has been overly aggressive in imposing changes, the investee company management team will not want to work with it again. This sees a churn of skill and expertise. In contrast, Oakley's approach means skills are retained.

*Oakley also brings market knowledge, and can repeat successful playbooks across multiple jurisdictions and economies of scale.*

We see a number of other advantages that OCI gains from having Oakley as the manager. These include:

- Market knowledge: Oakley's regional/sector focus gives it a specific insight into trends often before they are visible in public markets or to standalone companies. Oakley opened its German office in 2018, to be closer to that key market. Given the relative impact of COVID-19 in Germany compared with the UK, the timing of this new office proved opportune.
- Same playbook: we see advantages when the same strategy can be rolled out across different markets – so the lessons learned from early adoption can be avoided again. Examples include price comparison websites (Germany, Italy, Spain), education and web-hosting.
- Operational economies of scale, including treasury relationships and supplier relationships, and building expertise in areas like ESG.

We discuss the robust procedures to manage potential conflicts of interest in the section on corporate governance later in this report.

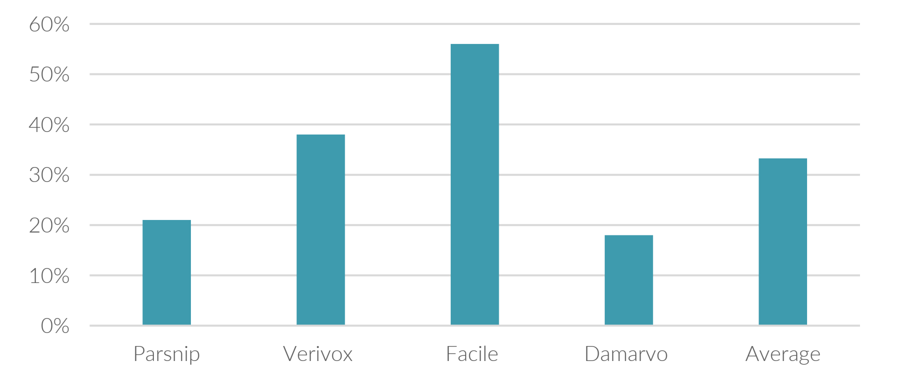
# NAV approach appears conservative

## Actual realisations against carry cost

*What businesses sell for ultimate verification of accounting value. Average uplift on sale been 34%.*

Again, the proof of the pudding is ultimately in the eating. On exit, Oakley has achieved higher valuations than the book value, often significantly better. When WebPros was sold in December 2019, it saw a 92% premium to the June carry value. The average uplift on realisations has been 34%, well above what we may consider a normal bid premium in public markets (even for a trade buyer). *Prima facie*, this is evidence that the carry value is a conservative reflection of the real value of the company.

2018 realisations – examples of uplift to book value (%)




*Source: OCI Report and Accounts, Hardman & Co Research*

*No incentive for Oakley to inflate value, with performance fees paid on realisation, not accounting value. Management fees driven by commitments, not accounting value.*

## No incentive to inflate valuation

There is no incentive for OCI/Oakley to inflate valuations. As we detail in the section on costs below, the management fee for investments in Oakley Funds is based off commitments and invested cost, not the accounting carry value. Performance fees are accrued *en route*, but the cash is paid only out of cash proceeds, not on accounting revaluation.

*Carry value 1.7x initial cost*

## Carry value versus cost

The December 2019 total carry value of the portfolio was 1.7x its initial cost (well below the realised multiples outlined above) and, if we exclude TMO, the ratio is 1.8. This level is indicative of no valuation inflation in the ongoing portfolio.

*Auditors tested process that manager used to value these investments*

## Corporate governance

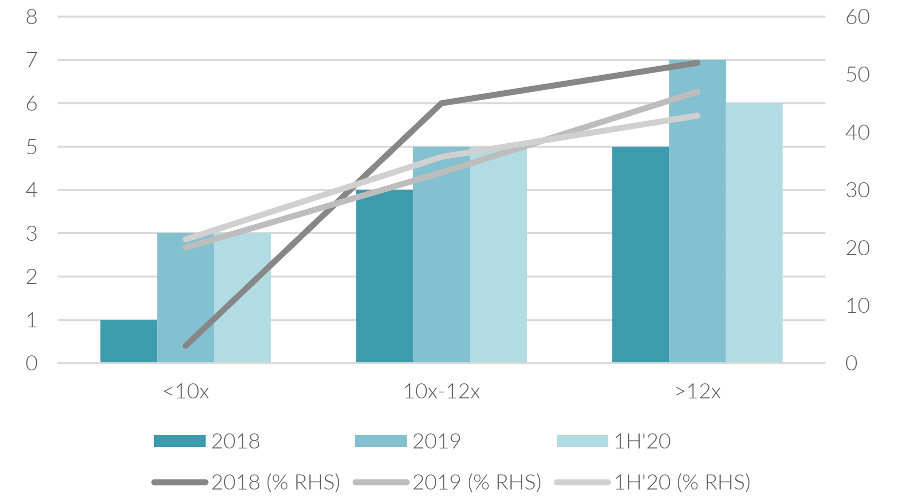
There are the usual control procedures in place, including a review by the board and the independent auditors' Audit Review. Investors will note, from the Auditors Report (pages 84-85 of the 2019 Report and Accounts), that the auditors tested the process that the manager used to value these investments.

*Mix of valuation ratings entirely consistent with mix of business. No evidence of unsupported valuation rating escalation. Average EV/EBITDA fell from 12.9x in 2018 to 12.1x in 2019 and 11.8x in June 2020 with more, lower-rated, new businesses.*

## Range of valuation multiples

A further consideration in the reasonableness of the overall portfolio is to consider what range of multiples are being implied and how this has changed over time. Average EV/EBITDA fell from 12.9x in 2018 to 12.1x in 2019 and 11.8x in June 2020. This was driven by mix effects, with the addition of lower-rated companies early in their PE life cycle. The number of companies on multiples of more than 12 rose from five to seven, dropping back to six in June 2020. In terms of mix, on the upside, there was growth in the number of more highly-rated technology and tech-enabled companies, while, on the downside, there were more new companies added at lower ratings.

Spread of EV/EBITDA multiples by number of companies and percentage of companies




*Source: OCI, Hardman & Co Research*

# Dry powder in large buyout funds

*Some been concerned that significant dry powder (i.e. unused capacity) in PE is driving up competition, but this is concentrated in large funds, with several years left in their investment period, and who are buyers of Oakley Fund assets*

Much has been made of the amount of dry powder in the PE space. In broad terms, the amount of unused commitments has doubled over the past four years. As the amount being deployed (pre COVID-19) had risen at a similar rate, the unused capacity remains around two and half years of investment. Large and mega funds have raised an increasing proportion of the capital and, with ca.75% of Oakley deals on an uncontested basis, the availability of dry powder elsewhere in the PE space is unlikely to have material impacts on Oakley acquisitions.

The majority of the dry powder has been raised in the past two years, leaving three or more years of an open investment period to deploy these funds. For a business such as OCI, this is positive, as it creates more opportunities for investments to be exited. As the smaller businesses grow into larger ones, they are of more interest to the large PE funds. The dry powder potentially fuels more competition, and so higher prices, when Oakley chooses to exit.

# Liquidity management

*Balancing liquidity and returns a core management skill. Over-commitment looks reasonable in light of cash/borrowing capacity, likely realisations, and relative to peers.*

Managing cash is crucial to any business, including PE. Investment drawdowns are usually spread over many years (we illustrate the life cycle of PE funds in *Appendix 2*) and, to hold cash in advance of such calls, is a major drag on returns. Industry-wide, there is a practice called "over-commitment", which means more drawdowns are committed to than current liquid resources would fund. The assumption is that cash from near-term realisations will be available to fund new investments drawn down in later years. OCI has historically adopted a very prudent approach to cash management, accepting the drag on earnings as a consequence.

*At June 2020, undrawn commitments were £529m, of which £95m unlikely to ever be drawn*

At 30 June 2020, OCI had £529m of undrawn commitments, consisting of £95m of commitments to Oakley Funds I to III that are not expected to be drawn (being largely outside the investment period), together with £30m of Fund III, £336m of Fund IV and €75m (£68m) of Origin Fund commitments with a reasonable probability of being drawn. It should be remembered that these drawdowns, especially the £404m in Fund IV and Origin Fund, are likely to be spread over up to five years, as these Funds are at the very early stage of their investment period.

*Available resources include cash £261m, debt investments £125m, borrowing capacity ca.£170m, and realisation proceeds*

To fund these commitments, OCI has i) end-June 2020 cash balances of £261m, ii) cash received from realisations, which, in the five years to FY'19, averaged £142m p.a., iii) £125m of debt investments, which will be realised to fund equity (we discuss their maturity profile in the portfolio section below), and iv) debt gearing, which, under the current policy, is restricted to 25% of net assets (on the £691m at end-June, this provides £173m of liquidity).

# Pro-active approach to the NAV discount

## Action taken

*Management taken increasing action to address discount, including i) no further share issues at discount to NAV, ii) increased personal holdings to nearly 10%, iii) no performance fees on debt direct investments, iv) dividends, v) increased disclosure, vi) move from AIM to SFS, vii) re-balancing board to independent NEDs, viii) increasing shareholder engagement*

The OCI board has taken multiple steps to pro-actively manage the discount, including:

- "Going forward, the Board does not intend to issue equity or sell stock from treasury at a discount to NAV". Management is clearly sensitive to investor concerns on this matter and how its past actions in doing so are viewed by many shareholders. The message has now been repeated in multiple public announcements, and could not be clearer.
- The OCI board and Oakley Partners hold ca.9.5% of OCI shares, vs. 5% at December 2018 and 1.2% at December 2017. The increase in shares has been through purchases in the market.
- From 1 January 2020, management performance fees will not be charged on debt direct investments.
- Balancing shareholders' immediate returns (via dividends and buybacks – both relatively recent phenomena) with the long-term value created by re-investing realisation returns.
- OCI has enhanced disclosure on i) reconciliation of OCI holdings, ii) more investment detail, iii) increased communication frequency with factsheet (2019 introduction).
- Listing moved from AIM to the Specialist Fund Segment (SFS) of the Main Market (listing 23 August 2019).
- Improved independence of the board (see section on corporate governance).
- OCI has been proactively engaging with a range of shareholders, *inter alia* through conferences and paid-for research. It is assessing which of these will provide the best returns and become embedded into the IR programme.

## Buybacks

### *Principles*

*Discount can be helped by buybacks, but this can create liquidity issues, worsen expense ratios and send mixed messages re growth prospects*

There are a number of tools that can be used to manage the discount. Many companies have policies that allow them to buy back shares if the discount is above a certain level for a specified time. Others use intermittent tender offers. We believe the key considerations are as follows.

- On the upside: i) It creates a buyer for the shares. The immediate effect of a large tender offer may be more effective in removing potentially bulky sellers. If future offers are expected, it may also mean that such sellers do not continually drip shares into the market. Where there are likely to be a larger number of small-sized sellers, an ongoing programme may be more effective; ii) The liquidity provided by buybacks may encourage buyers, as it provides them with an exit route, without disrupting the market price; iii) It may be perceived as putting a cap on the discount, which the market might then close itself; iv) It is "fairer" to all shareholders. A seller may arise for specific reasons (such as death, divorce or liquidity calls) and, by keeping the discount tightly controlled, such sellers do not lose out to discount variability; and v) Where the discount is large, the returns on the cash used in the buyback may be above the levels targeted in the investment company.

- On the downside: i) It could create liquidity problems; ii) The capital can be better deployed in the Fund; iii) By shrinking the business, it worsens the total expense ratio, and increases leverage where there is debt; iv) It sends a very mixed message, to investors especially, if the company later comes back to the market for further equity funding; v) It can also send a very mixed message to staff. Given the scale of OCI relative to Oakley's other businesses, any shrinkage in assets would, we believe, be unlikely to impact staff morale, unless it were extraordinarily large; and vi) An active buyback programme may reduce the likely return of capital by way of dividends, and thus benefit capital investors over income investors.

## *OCI's approach*

***Buybacks done tactically, typically in irregular but sizeable deals, rather than small daily flows***

OCI has done tactical buybacks/treasury share purchases (for example, 3m in March 2020, 1.34m in June 2020 and 3.66m in July 2020, and others in 4Q'19 and 2015/2016). We believe those done in 2019 helped absorb a potential share overhang from investors (Woodford and Invesco) that could be seen as forced sellers. OCI typically has executed buybacks through large deals, rather than small, daily operations. Looking forward, it has committed to a buyback policy that we expect to be executed in a similar vein. Given the current level of discount, and OCI's high cash levels, any sizeable seller would likely be of interest to OCI, but we do not believe it will chase smaller volumes.

# Investment-neutral issues

## No Woodford/H2O funds real read-across

*No substantive Woodford read-across, and may create business opportunities, but sentiment likely to be adverse*

We believe there is no real read-across to OCI from the situations at Woodford Asset Management and Natixis's H20 funds. OCI's permanent capital structure and Oakley Funds' committed capital make them an ideal vehicle to exploit illiquid discounts in the underlying assets. In addition, its corporate governance appears robust and its valuations seem realistic. OCI's own shares are liquid. On the upside, there may be a business opportunity in gaining assets from open-ended funds and companies staying private for longer. We believe the downside risk is illiquid investment sentiment .

### No read-across

*No financial read-across: OCI has permanent capital, conservative NAV (performance fees paid on realisation and management fees on committed capital, so no incentive for Oakley to inflate valuations), visibly independent board, no asset contagion, and minimal dependency on platform distribution. OCI shares are liquid, and large shareholders are falling proportion of register.*

The key issues are:

- The permanent capital in closed-ended funds, £261m cash balances, debt investments of £125m, with short contractual lives, and limited underlying gearing all mean that OCI will not be – and, very importantly, will not be perceived to be – a forced seller of any Fund or direct assets at distressed prices. Oakley Funds' committed capital structure from a robust investor base (including OCI) also means that OCI will not be a forced seller of underlying assets, either.

- We discussed, in the section above (see page 30), the "real" NAV and, in particular, noted that Oakley realisations have been consistently well above the accounting book value of its investments. There is no incentive for the manager to inflate the accounting valuation, as i) performance fees are paid only on realisation, and ii) management fees are on a commitment for a five-year period post fund inception and, thereafter, 2% on capital invested, and are not on the accounting value of the investments. Accordingly, we do not believe that concern on whether the NAV is "real" or not reads across to OCI.

- The board of OCI (see *Appendix 1*) has been enhanced and is now visibly independent from the manager.

- The other issues arising from these situations also do not appear material. In particular, we note that i) there is no asset pricing contagion risk, as neither OCI's direct nor underlying assets were held by either Woodford or H20, and ii) platform distribution had not been a material source of business, and any changes in their rules will not impact OCI.

- Anecdotally, we have heard that some managers (especially multi-asset managers) are facing restrictions from their compliance departments, based off the liquidity of their public holdings. In the past, simply being quoted was enough to be counted as liquid but, post-Woodford, this is now open to question. We believe the market will focus on exchange-traded volumes. For OCI, 2019 saw major shareholders (Woodford/Invesco) selling down large positions – so 2018 was a more normal year, when around 38% of the current market capitalisation traded. This is at the higher end of the peers (see table below). We note that, in 2018, the top three shareholders held 51% of the shares; this was 38% at end-2019 and 31% now.

| Turnover on London Stock Exchange (LSE) | | | | | | |
|---|---|---|---|---|---|---|
| £m (SIHL $m) | OCI | APAX | HGT | NBPE | PEY | SIHL |
| Current market cap. | 441 | 832 | 1,122 | 403 | 589 | 112 |
| Value traded 2019 | 412 | 77 | 262 | 159 | 171 | 27 |
| Value traded 2018 | 166 | 75 | 170 | 100 | 122 | 43 |

*Source: LSE, Hardman and Co Research*

*IPOs only minor source of realisations, so limited impact on OCI investors*

Finally, as noted above, increasing compliance issues with regard to the liquidity of quoted holdings in the UK could present a constraint on the appetite for new issues, and thus PE managers' exit options. We note that public markets have been only a minor part of Oakley's exits, and we do not see this as a concern for OCI investors.

### Long-term opportunities

*May see shift towards closed-ended vehicles*

Once the dust has settled, and any new regulations are in place, the benefits of being a long-established, closed-ended investment company are likely to be visible. We believe sentiment may lead to a preference for such structures and that Oakley, and so OCI, is thus well positioned to benefit from any such move.

*More companies may stay private for longer, increasing Oakley's advantages from fishing in this pool*

Given the incremental costs and pressures from a quoted listing, anything that is likely to create additional impediments to listing is likely to see a continuation/extension of the current trend of companies staying private for longer. This may create further opportunities.

### Potential downsides

*However, investor appetite for illiquid, unquoted investments may lessen, and market sentiment may be hard to call*

We see two downsides from the Woodford situation: i) investor appetite for illiquid investments may wane, and clearly all PE investment companies will be impacted by this; ii) market sentiment can be hard to predict. The August 2007 stopping of withdrawals from two BNP Paribas hedge funds is seen by many as a significant event, foretelling the lack of trust between financial institutions and the subsequent financial crisis.

## Corporate governance improving

### Independence, experienced board

*Directors have appropriate market knowledge, and experience of range of economic conditions*

We detail the biographies of the board in *Appendix 1*. We believe they demonstrate many of the objectives investors should be looking for in a board, including:

- ► Relevant experience of OCI's markets.
- ► Current experience in comparable companies, from which OCI's performance and controls can be effectively compared.
- ► Experience of adverse market conditions.

*Independence being improved with new NEDs in 2019*

Independence from the fund manager was an issue in the past, but it has been addressed, and the board is no longer to be dominated by Oakley-related people. The 2019 appointment in July of Craig Bodenstab and, in December, of Richard Lightowler brought the number of independent directors to the majority, although the former resigned at the end of June 2020, due to a significant and unplanned increase in his other commitments. OCI commented that it looked forward "to announcing the appointment of a new Independent Director shortly" to restore the intended bias to NEDs. While the Oakley-related directors brought considerable and relevant experience, they could not be considered as independent of the manager. We understand that the main impacts to date have been on issues like the level of interrogation Oakley managers now receive, who effectively do much of their own analysis. In due course, there may be more engagement by directors with shareholders directly.

## Relationship with Oakley

We outlined above the multiple advantages in having Oakley as the manager, but there are legitimate potential conflicts of interest concerns, given i) the investments in Oakley Funds, ii) loans to both the Funds and investee companies, iii) recapitalisations have often seen the realisation of assets from one Oakley Fund with re-investment by another (where OCI's stake is different), iv) the scale of management and performance fees, v) the 2016 payment of an option fee to increase the stake in Fund III (OCI has commented that the option fee was always repaid upon investment and, going forward, this has been removed), and vi) the historical influence on the board of Oakley-related directors.

*Key considerations: i) new board independent from manager; ii) OCI accounts for just over third of Oakley Fund commitments, a ratio that has been falling as Oakley has raised external funds; iii) new Management Engagement Committee; iv) greater ownership in OCI by Oakley partners; v) usual conflict of interest policies in place*

In considering these potential conflicts of interest:

- The OCI board has the ultimate decision to invest (or take any other action). In the ordinary course, it makes decisions, after reviewing the recommendations provided by Oakley. Oakley is primarily responsible for making investment recommendations, along with structuring and negotiating deals, for the Oakley Funds. The re-invigorated and independent board is important as a control.
- OCI's total committed capital to the Oakley Funds and direct investments is just over €1bn – around a third of the total. OCI remains a material part of the Oakley business. This ratio has been falling (in 2018, OCI was €718m, 44% of Oakley's committed capital), as Oakley has been successfully raising external funds, and OCI is not in a position to issue new equity, given the current level of discount.
- OCI has recently established a Management Engagement Committee, with regular reviews of the performance of the service providers (including Oakley).
- There has been a greater alignment of interests between OCI and Oakley Partners, who now own 9.5% of the total shares in OCI.
- The board has adopted the standard conflict of interests policies, creating an audit trail to review progress /issues.

# Concentration opportunities and risk

## Opportunities

*One position added 8% to NAV on disposal*

Individual stock outperformance is more visible in a concentrated portfolio. As noted in the 12 December 2019 announcement of the sale of Webpros, this one disposal added 8.2% to the NAV.

*Concentrated portfolio focuses mind on due diligence*

Having a concentrated portfolio may see a practical benefit, as each investment may receive more individual attention than one being managed within an overall portfolio. To quote Warren Buffett, "a policy of portfolio concentration may well decrease risk if it raises, as it should, both the intensity with which an investor thinks about a business and the comfort-level he must feel with its economic characteristics before buying into it."

## Risks

*Underperformance also highly visible*

The downside to concentration is that any individual investee company's weakness will be highly visible in the OCI NAV. An obvious example would be the holding in TMO, where we estimate that TMO's fall in the recent turmoil has reduced OCI's NAV by a net 8% to end-June.

# Other neutral factors

## KID disclosure

*KID stress-test shows in-line downside risk. There are correlations between this scenario and large discounts. We note and concur with market's view that methodology of calculation not always helpful.*

We totally support the market's antipathy towards KID disclosure and its value to understanding risk. That said, in our report, Investment companies: understanding the deepest discounts, published on 14 May 2019, we did identify a correlation between the KID stress-test scenario and companies with the biggest discounts. We recognise that this calculation is driven by historical movements but, given the correlation we identified, we believe that at least some investors view it as indicative of prospective risk. On this basis, OCI is in the middle of the pack of "peer" companies.

KID disclosure of returns in different investment scenarios for OCI and selected peers

| % | OCI | APAX | HG Capital | NBPE | PEY | SIHL |
|---|---|---|---|---|---|---|
| Stress-test scenario | -50 | -4 | -54 | -99 | -62 | -90 |
| Unfavourable scenario | -6 | 3 | -1 | -24 | -35 | -49 |
| Moderate scenario | 10 | 13 | 20 | 5 | -7 | -21 |
| Favourable scenario | 29 | 15 | 47 | 41 | 34 | 24 |
| Risk rating | 4 | 6 | 5 | 4 | 4 | 6 |
| Recommended hold period (years) | 5 | 5 | 5 | 5 | 5 | 5 |

*Source: Latest KIDS on website – OCI December 2019, APAX 31 December 2019 HG Capital 11 November 2019, NBPE 14 July 2020 £ class A shares (included COVID-19 effects), PEY 5 March 2020 sterling, SIHL 31 March 2020, Hardman and Co Research*

In considering the table above, investors should bear in mind i) the date – NBPE is after the COVID-19 effects, and so reflects the downside risk from that, and ii) currency can be important, with the Princess (PEY) sterling range being -62% to +34% in the table above (its Euro shares have a range of -24% to +23%).

## Currency exposure

Looking through the reporting currency/legal head offices to the underlying portfolio companies' assets, we understand that the real currency breakdown of the portfolio is around half EUR, a fifth GBP and a third US$. Hedging would be incredibly complex and potentially very costly. By OCI not hedging, investors may expect an element of short-term noise on currency movements.

## Continuation vote

OCI will hold a continuation vote at its 2022 AGM (and every five years thereafter). We do not expect this to be a price-sensitive event.

# Investment downsides

## Costs

### Summary

*PE is high-cost/high-return business. Investment in due diligence has paid off, with Oakley having relatively few low-return investments. Investee companies save considerable resources, both ongoing and in capital raises. Overall, ratio of fees to returns is, we believe, broadly in line with overall market.*

There is a market sensitivity to costs, especially as some of the nominal performance fees can be large. However, investors should note that the investment generates market-beating returns. PE requires significant resources to assess deals, and to invest in management and improving performance once positions have been taken. This is reflected in the low proportion of investments making negative IRRs. Significant cost is also incurred in aligning manager and shareholder interests in a way that is not possible in public markets. Due diligence, investment and manager alignment are all necessary to deliver to the value-adding proposition. To make a proper comparison with a portfolio of rapidly-growing quoted entities, investors should bear in mind that listed investments incur equity-raise fees, the ongoing costs of being listed and the material opportunity cost from managements' IR engagement. For OCI, the total costs over 2016-19 were £33m, broadly in line with dividends received by shareholders (£31.6m), while shareholders have additionally seen the share price rise by 61%, from 144p at the start of 2016 to its current level of 231.5p, despite the COVID-19 crisis. The ratio of costs to returns is, we believe, broadly similar to the overall investment company average. with OCI being both higher-cost but also higher-return.

### What OCI investors pay in fees

*Statutory disclosure unhelpful, with some costs taken through lower asset valuations*

Unfortunately, the statutory accounting disclosure is not especially helpful to investors. *Inter alia*, we note that the management of Oakley Funds and its performance fees are captured through a lower fund valuation, and not reported separately as costs. In accounting terms, costs have ranged from 1.3% to 2.8% of opening assets, while we believe the total fees are nearer to ca.7%.

**Theoretical example showing costs and their treatment**

| Year | 0 | 1 | 2 | 3 | Comment |
|---|---|---|---|---|---|
| **Investee company** | | | | | |
| Earnings | 100.0 | 115.0 | 140.0 | 207.0 | 20% organic CAGR, accelerating through ownership |
| Multiple | 8.0 | 9.0 | 10.0 | 12.0 | Exit multiple 1.5x entry multiple |
| **Company value** | **800.0** | **1,035.0** | **1,400.0** | **2,484.0** | **Gross Money Multiple 3.1x over period** |
| | | | | | |
| Management fee | 0.0 | -16.0 | -16.0 | -16.0 | 2% commitment, so a falling percentage of fair value |
| Performance (accrued, not paid) fee | 0.0 | -43.6 | -66.3 | -206.8 | 20% of gain (assuming 9% hurdle met) |
| Total fees | | -59.6 | -82.3 | -222.8 | |
| Admin. costs | | -1.2 | -1.6 | -2.1 | 15bps |
| Total costs | 0.0 | -60.8 | -83.8 | -224.9 | |
| | | | | | |
| **FV in OCI accounts** | **800.0** | **974.2** | **1,255.4** | **2,114.5** | **2.6x Net Money Multiple over period** |
| Annual shareholder return | 0.0 | 174.2 | 281.2 | 859.1 | |
| | | | | | |
| Cumulative management fees | 0.0 | -16.0 | -32.0 | -48.0 | Total 1.9% of the realised value over the three years |
| Cumulative performance fees | 0.0 | -43.6 | -109.8 | -316.6 | **Total 13% of the realised value, 87% total manager fee** |
| Cumulative other costs | 0.0 | -1.2 | -2.8 | -4.9 | |
| Cumulative total costs | 0.0 | -60.8 | -144.6 | -369.5 | |
| | | | | | |
| **Cashflow to investors** | **-800.0** | **0.0** | **0.0** | **2,114.5** | |
| **Cashflow to manager** | | **16.0** | **16.0** | **332.6** | **Performance fees paid only on exit** |
| | | | | | |
| Annual fees as % shareholder return | | -25% | -23% | -21% | **i.e. shareholders keep average 22% of the total gains** |
| Annual fees as % year-end assets | | -6% | -7% | -11% | |

*Source: Hardman & Co Research*

While this may appear high, it is worth noting that:

*While costs may appear high, investors typically more than double money, nearly three quarters of expected costs are performance-related and only paid on sale*

- As can be seen in our example above, i) investors get a net money multiple of ca. 2.6x their investment, ii) 87% of manager's fees are performance fees, aligning them closely to shareholders, and iii) investors get 78% of the return, and the manager gets 22%. Given the mix of OCI's management against performance fees, this does not appear disproportionate with the AIC average, where management fees alone are just over 1% for returns, which we believe to be in the region of 7%-8%.

*Due diligence in PE expensive, but limits number and scale of downside. High operational cost for higher returns.*

- PE is not a cheap business to do well. As we noted above, pre-investment due diligence/getting to know the company is significant, but effective in limiting downside situations. Oakley is actively engaged with managers throughout the holding period, incurring materially more cost than would be the case for most quoted investors (see section on COVID-19 as a case study). This again enhances returns, but comes at a cost.

*Cost of (serial) capital raising much higher for quoted business than PE-backed*

- A small listed company seeking to raise equity to fund growth/an acquisition will incur significant costs on each issue or the earnings drag of raising large amounts of capital upfront and then taking some time to deploy it. PE funding is significantly cheaper and, as it is provided on a more just-in-time basis, does not have that earnings drag.

*PE saves costs against quoted companies – both direct (listing, IR, etc) but also opportunity costs of management time*

- Investors also save the costs of the investee companies being quoted. In addition to the direct listing and associated legal costs, there is the investment in IR. This incurs direct costs, but also opportunity costs. A quick (and purely anecdotal) survey indicated a wide range of time committed to IR by both a CEO and CFO. Including the preparation time, results meetings, key investor meetings and strategy setting, etc, we believe a reasonable average for the former is around one week per year, and two weeks-plus for the latter. Having a CEO spending time running the business, rather than talking about it, should, we believe, add value and we believe Oakley investee company managements have more time to run their business.

- There is a potential but unquantifiable cost saving with PE, allowing management to focus on long-term performance, rather than reacting to short-term issues.

## *Management fee – Oakley Funds*

*On Oakley Funds, 2% management fee based off commitments, not accounting carry value*

On Oakley Funds, OCI is charged a management fee of 2% (on commitment for a five-year period post Fund inception; thereafter 2% on capital invested). This is important, as there is no incentive for the manager to inflate the value of the Fund to generate an additional fee.

## *Management fee – Other assets*

*Other assets also 2% management fee, based off NAV*

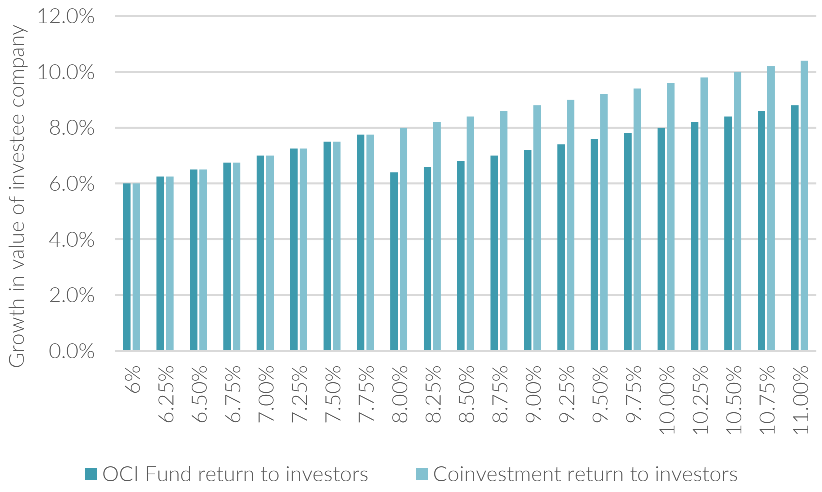
The management fee is equal to 2% p.a. of the NAV (before deduction of any accrued performance fees) of all investments held by the company, except for the investments in, and any revolvers with, Fund I, Fund II and Fund III, and any loans to entities affiliated with the Administrative Agent. In essence, it is a 2% fee on equity positions, which are mainly listed, and so marked to market. The fee is *pro rata* for partial periods and payable quarterly in arrears. As we detail in *Appendix 5*, the management fee for peers is generally around 1.25%-1.5%.

## *Performance fees – Oakley Funds*

*Oakley Fund performance fee 20% of total gain once 8% hurdle been achieved*

There is a performance fee (20% of the total gain once an 8% hurdle rate has been achieved). This structure creates an unusual pattern for returns for shareholders, as no performance fee is payable unless 8% returns are made, but then the fee is 20% of the total return. Investors in OCI thus get a lower return if the performance is just over this threshold and only get back to an 8% return once the investee company returns have risen above 10% (see chart below).

## Return to investors by range of investment company returns (post management and other expenses) in Oakley Funds and direct investment




*Source: OCI, Hardman & Co Research*

*Some peers have same structure as OCI; others just charge performance on gain over hurdle rate*

As we detail in *Appendix 5*, the hurdle rate for OCI does not appear out of line with most of its peers. However, there is a more mixed approach to whether the fee is a percentage of the whole gain or just the excess over the hurdle. Oakley is not unique in taking a percentage of the whole gain, but many companies take only the excess.

### Performance fees – other assets

Oakley receives a performance fee of 20% of the excess of any proceeds from the full or partial realisation on disposal of each of the company's direct investments after the deduction of i) the original cost of the direct investment, and ii) the attributable proportion of all expenses incurred by the company in respect of the direct investment (including the operational service fee), subject to an 8% preferred return. The performance fee is thus different from that on Oakley Funds in an important way: it is 20% of the gain over 8% (nil below), and not 20% of the entire gain once the hurdle has been achieved. On co-investments, there is thus a different return pattern.[3]

### Advisory fees – other assets

*Advisory fees in equity transactions 2% on both purchase and sale*

On direct investments, Oakley takes an advisory fee of up to 2% of the equity transaction value (both on purchases and sales). We note that many PE houses offset such charges against management fees. Oakley has advised that the fee is usually well below the 2% cap.

### Non-Oakley-related costs

The other costs, including directors' fees, administration fees, auditors, etc, are currently running at ca. £1m p.a., and ca.15bps of NAV.

[3] See Note 15, Report & Accounts 2019 (page 108) or 2018 (page 93)

## OCI relative to peers

*OCI below-average on AIC basis but above-average on KID disclosure*

Unfortunately, the public disclosure on costs is singularly unhelpful to investors. The treatment of performance fees appears especially analogous and, in any given period, comparisons will vary by the performance of realisations for each Fund in that year.

- Using the AIC definition (right-hand chart below), OCI is the second-cheapest among its peers on ongoing costs, at just 63% of the average of its peers. Including performance fees, which reflect the top-quartile/5% performance of OCI's Funds II and III, OCI is second-highest, but just 35bps, 15% above peer averages, but well below the value added by its return outperformance.

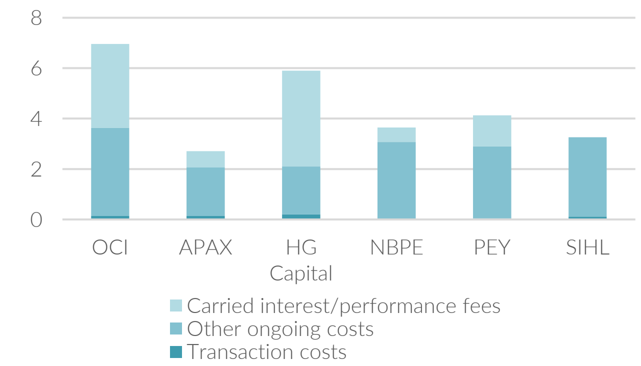
*On KID disclosure, OCI ca.1% above peers on other ongoing costs, which may reflect recent investments and growth of funds, i.e. methodological factors*

- The left-hand chart below shows the KID disclosure of costs for OCI and its peers. By this measure, OCI is in line on transaction costs, but 1% above-average on ongoing costs. This may be due to i) investment in areas like better corporate governance/relations with the shareholders, and ii) impacts from the growth of the funds. Current costs are measured against an average book over three years – so a business like OCI/HG Capital, which has seen strong growth, has lower average NAV than the current NAV, and costs appear higher. Management advises that build-out of the infrastructure will support a much larger business, which could, everything else being equal, see a lower expense ratio going forward. A number of initiatives (such as retail shareholder conferences) are being tested – so the ongoing level of spend may be lower than the current level.

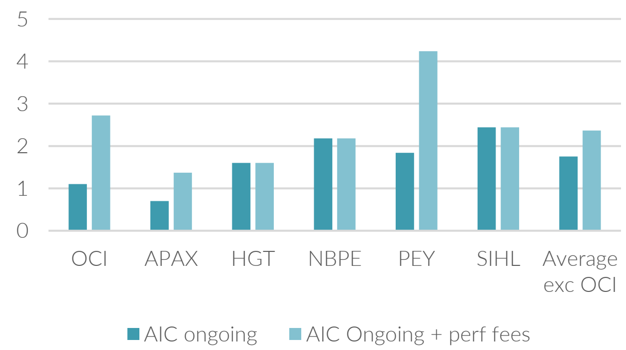
*Also on KID disclosure, OCI ca.2% higher than average on performance fees. May be due to fees being percentage of total gain, rather than return above a hurdle rate*

- On carried interest/performance fees, OCI is a further 2% above-average. Again, there may be a methodological effect, with strong recent returns triggering performance fees. There is the more substantive point that the higher KID disclosure companies (OCI, HGT) take a percentage of the total gain once a hurdle has been achieved, while the lower-cost companies take a percentage of incremental gain over the hurdle rate.

**KID disclosure of costs (%)**




**AIC disclosure of costs (%)**




*Source: AIC, Latest KIDS on website – OCI 20 December 2019, APAX 31 December, HG Capital 11 November 2019, NBPE 14 July 2020 £ class A shares (included COVID-19 effects), PEY 5 March 2020 sterling, SIHL 31 March 2020, Hardman and Co Research*

# Perceived sensitivity to economic cycle

## Summary

*Sentiment to downturn risks may be overdone, given actual performance of OCI/PE through previous downturns and OCI's NAV growth in 1H'20*

We believe a further investor concern is how OCI will perform in the event of an economic downturn, a concern highlighted by the probability of a COVID-19 recession. OCI's annual NAV rose through the 2007-09 financial crisis and recovery afterwards, but it was overweight cash, having been launched only in 2007. The 4% NAV total return in 1H'20, and so through the initial stages of the COVID-19 crisis, is also encouraging. Other PE companies typically saw only modest falls in NAV, well below index drops.

*A downturn will impact business, but investee companies are concentrated in relatively defensive sectors, the companies and Funds do not appear over-geared, and there is access to cov-lite documentation, which is likely to see fewer default events*

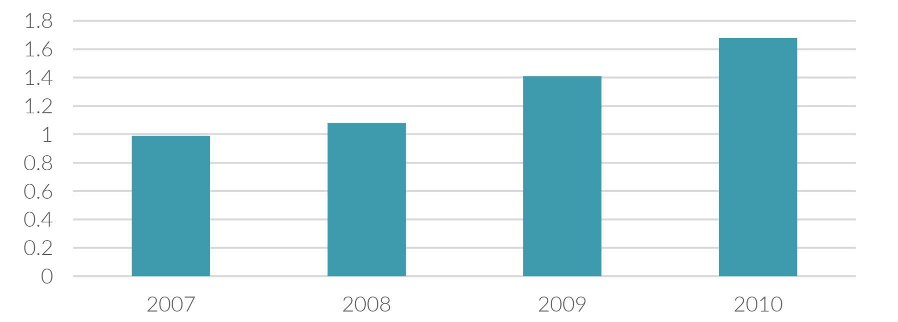
A downturn will have several potential impacts: i) a weaker trading outlook for the underlying companies – as we show below, the academic research concludes that PE-backed companies continue to outperform, aided by greater certainty in finance and operational improvements (both of these appear evident in Oakley's actions in response to COVID-19); ii) Oakley Funds' operational performances are likely to be impacted with potentially deferred and lower realisation rates (noting to date Oakley has still been able to complete exits), and a delay to re-investment (with a potentially high cash drag in 2020 offset by higher returns in future years); iii) the valuation rating applied to underlying companies is likely to fall; and iv) in due course, there are likely to be more re-investment opportunities at lower prices. On the downside, sentiment is likely to be adverse, widening the discount.

## NAV performance during shock periods

*OCI's annual NAV rose through financial crisis and recovery, but was overweight cash*

While Oakley was founded in 2002, OCI itself was established only in 2007, and so its performance through the financial crisis is not a fair reflection of how it may perform in a future one. At that stage, it had cash that could then be deployed in buying assets at depressed valuations.

OCI's NAV per share (£), 2007 to 2010



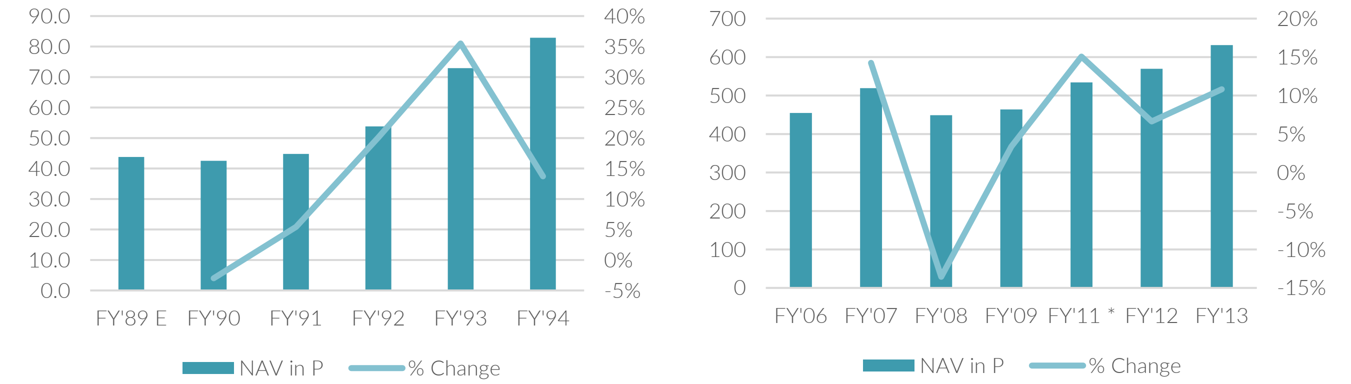

*Source: OCI Report and Accounts, Hardman & Co Research*

*Looking at peers/PE market may give better impression of what to expect in future. Taking ICGT as example, NAV was broadly stable in a "normal" recession (e.g. early 1990s) and, even in financial crisis, worst annual NAV fall was just 14% (absolute peak to trough including intra year was 24%).*

To give a better perspective of how OCI may perform going forward, the charts below detail the performance of ICGT through the 1990s' recession and in the financial crisis. Broadly similar trends are visible in a range of other funds of funds, such as Pantheon International. The key message is that the NAV outperformance to the market is not sensitive to the cycle, with the NAV in absolute terms showing considerable resilience. We note:

- In the early 1990s' recession, ICGT's annual reported NAV was broadly stable, before rising sharply in the following years.
- In the financial crisis, annual net assets decreased by 14% in the first year, but grew steadily thereafter. The intra-year peak-to-trough was a slightly higher number (24%) but, again, still better than the market.

ICGT's annual NAV (p) and annual change in NAV (%) in early 1990s' recession (LHS) and financial crisis (RHS)



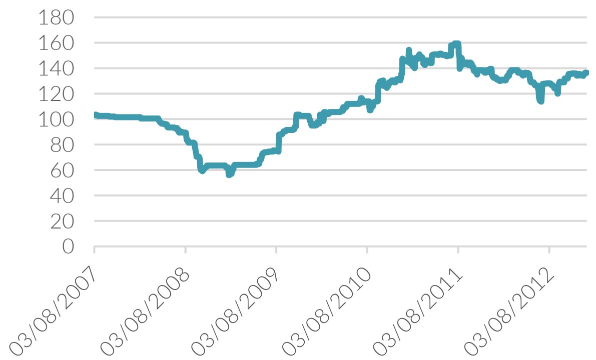

*Source: ICGT Report and Accounts (1989 estimated following re-statement of 1990 accounts), Hardman & Co Research*

## Share price

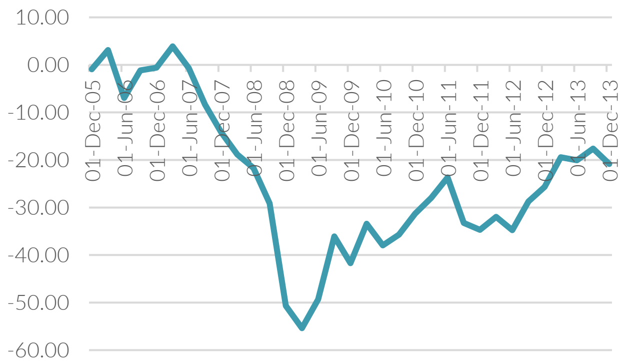
*Share price may over-react and discount widen, but effect short-term. This has already happened and is reflected in current discount.*

The left-hand chart below shows the evolution of OCI's share price through the financial crisis. Again, this may not reflect what will happen in the future, given OCI's immaturity at the time. As can be seen, there was a fall of around 40% in 2008, with a recovery back to the pre-crisis levels by late 2009. To show a more representative example of what may happen to a more mature PE business, the right-hand chart below shows the discount to NAV over the financial crisis to July 2019 for a sector consisting of Apax Global Alpha, BMO PE, HarbourVest, HG Capital, NBPE, Pantheon, Princess and SLPE. The discount to NAV widened from just under 10% to nearly 60%, even with the falling NAV. We believe this reflected the time lag between market falls and irregular NAV reporting, as well as concern about the survival of the companies/sector. The sharp reduction in discount in 2009 may partially reflect the NAV catching up to the market rating.

OCI share price (p)




"Sector" discount to NAV (%) for range of PE houses




*Source: Alpha Terminal, ICGT 3Q'19 presentation, slide 40 (sector comprises: Apax Global Alpha, BMO PE, HarbourVest, HG Capital, NBPE, Pantheon, Princess and SLPE), Hardman & Co Research*

## Why PE-backed businesses outperform

*Academic research shows PE-backed companies outperform in recession. Any drag from incremental financial gearing more than compensated for by improved management and certainty in finance.*

Outperformance against the market is a common theme from several PE investors. This view is supported by academic research reviewing what has actually happened to portfolio companies. In a piece called Private equity firms show resilience in a downturn, Stanford scholar Shai Bernstein noted, in September 2017, "the decline in investment for PE-backed firms was significantly smaller than the comparable firms. Specifically, we found that in the years leading to the crisis, both the PE-backed firms and the control group followed a very similar trend in terms of investments. But this trend diverged in 2008, at the onset of the financial crisis, when the decline in investment among PE-backed firms was much smaller. Moreover, we found that PE-backed firms increased their assets more rapidly relative to the control group, and also enhanced their market share during the crisis."

*Reasons given include long-term horizon and "dry powder" capital built ahead of downturn*

The reasons given were "I think there were a couple of reasons that allowed PE-backed companies to gain better access to financing resources, and, as a consequence, invest more and grow more rapidly relative to their peers. First, the longer time horizon of the PE firms' funds (average fund life is 10 years) allowed the PE investors to support their portfolio companies during the crisis. Moreover, the PE firms themselves still had capital available to deploy – capital they had raised before the crisis. Consistent with this notion, we indeed found that PE firms with more "dry powder," or non-deployed capital, at the onset of the crisis were more able to alleviate financing constraints of their portfolio companies during the crisis."

*Academics from Leeds/Nottingham universities reached similar conclusion, with PE-backed companies showing stronger performance than quoted companies*

Similarly, in a 2011 piece called Private Equity Portfolio Company Performance Through The Recession, academics from Leeds and Nottingham universities noted "Private equity-backed buyouts show a stronger economic performance in the period before and during the recent recession than a matched sample of private companies and listed companies. Private equity-backed buyouts show a higher return on assets, sufficient ability to cover the interest payments on their debt and higher gross margin in the recession period than before it. Growth in value added and profit is stronger than for listed companies during the recession period. Growth in turnover and employment remains positive for the PE-backed buyout sample. ….. The results imply almost 14% higher productivity and 5% higher return on assets (ROA) during the recession than matched private companies and listed companies."

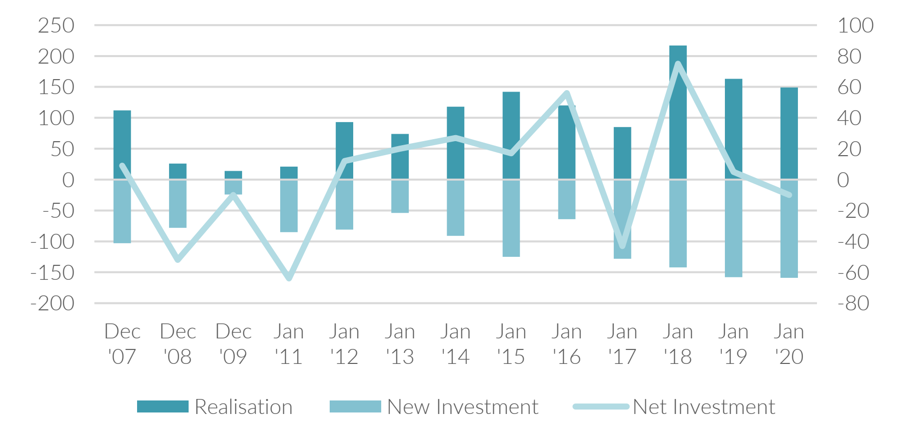
It is, of course, impossible to predict what would happen to the operational performance in a downturn from here. As noted above, PE businesses can be run for the long term, allowing greater preparation for, and appropriate responses to, short-term economic conditions.

## Oakley Funds' operational performances

*Both realisation and new investment fell sharply*

Market-wide, we expect a period of subdued activity. By way of example, the chart below shows the history of realisations and new investments since before the financial crisis at ICG Enterprise Trust. As can be seen, both activities shrunk markedly in the depth of the crisis, with new investment especially affected. When considering the likely drawdown of committed lines in the section above, such a trend is an important consideration.

ICGT realisations and investments (£m) since FY'07




*Source: ICGT Report and Accounts, Hardman & Co Research*

Oakley Funds has, and so OCI also has, a more concentrated portfolio. To date, realisations have been strong (with two sales completed through the COVID-19 crisis), but we would not expect this to continue. Oakley may have to wait a few months to see what fall-out there may be from larger companies seeking to strengthen balance sheets by disposing of non-core assets. Overall, we expect modest activity over next six months or so, before activity picks up sharply thereafter.

## Private asset holdings

*Absence of market price should not be concern, given Oakley's long track record of conservatism in accounting. We believe "real" NAV likely to be above accounting book NAV.*

We believe investors will give greater reliance to the NAV of a business where its value is determined by liquid, market prices than one whose value relies on unobservable inputs or modelling assumptions. This is precisely why the accountants developed their valuation hierarchy, and we note that 87.7% of OCI's total assets, (94.2% of investments) are accounted for on a level 3 basis (as at 31 December 2019), i.e. the accountants do not rely on liquid market prices or observable inputs. As we identified above, Oakley, and so OCI, has a long track record of valuing assets well below their sale value, which indicates that OCI's NAV approach is conservative and that the "real" NAV is likely to be above the level reported on any valuation date. We therefore are relatively relaxed that there is no market price, and we classify such concerns as being driven by sentiment, rather than by fundamentals.

We also note the concern that most of Oakley's assets may be considered illiquid (although the secondary market for OCI Fund investments appears currently robust). We again conclude that the issue is primarily a sentiment one. Liquidity is only a real issue if a holder is put in the position of being forced to sell the asset at a distressed price and time. Otherwise, it can simply hold out until a better price can be achieved. The key question, therefore, is whether Oakley Funds/OCI will ever be in such a position. Investors can take comfort from:

*Investors can take comfort from i) permanent structure of closed-ended vehicle, ii) appropriate gearing and liquidity, and conservative commitment policy, iii) much deeper secondary market, where prices for OCI's types of Fund asset are generally close to par*

- There is a debt financing facility in the Oakley Funds. Should this ever be unavailable, the Fund has the option of making commitment calls with significant penalties if commitments are not met. This means liquidity pressure is spread from the Fund across a wide range of investors (including OCI – but we have covered its exposure in the over-commitment section above).
- The permanent structure of the closed-ended vehicle means there are no cash calls from investors on OCI that must be met by liquidating assets.
- The OCI over-commitment policy is reasonable, bearing in mind what has happened to drawdowns and realisations in downturns, existing cash, likely realisations in the near future and borrowing capacity.
- Since the 2007-08 financial crisis, the fund's secondary market has been transformed, with trades in 2019 of $88bn, compared with OCI's Fund portfolio of ca.£0.4bn gross. We understand that the average discount to NAV in the secondary market has remained relatively modest, but this is driven by mix, with the secondary market having a greater percentage of lower-yielding, older assets than the Oakley Funds. Clearly, in a downturn, the discount is likely to widen, but this needs to factor in the discount at which OCI itself is already trading.

## Interpretations required in the valuation

*We believe NAV conservative, with appropriate checks and balances in place*

For the reasons detailed above, we believe there is factual support that OCI's valuation, provided by Oakley, is conservative. OCI's controls are in line with market practice, and include i) initial due diligence process and the Board of Directors performing ongoing monitoring procedures, primarily discussions with the Investment Adviser, ii) comparison of historical realisations with last reported fair values, and iii) review of the auditor's report of the respective Fund.

*However, shades of grey in accounting, and EBITDA multiple has been on medium-term rising trend. Valuation based off a number of assumptions, rather than direct market prices.*

However, there will always be shades of grey in valuing unquoted and potentially illiquid investments, and we note that the EBITDA multiple has been rising over the medium term (albeit down modestly in recent periods). The fair value is generally obtained by calculating the EV of the portfolio company, and then adding excess cash and deducting financial instruments, such as external debt, ranking ahead of the fund's highest-ranking instrument in the portfolio company. A common method of determining the EV is to apply a market-based multiple (e.g. an average multiple based on a selection of comparable quoted companies) to the "maintainable" earnings or revenues of the portfolio company. This market-based approach presumes that the comparator companies are correctly valued by the market and that any adjustments to get to maintainable earnings would be treated in the same way by the market. A discount is sometimes applied to market-based multiples to adjust for points of difference between the comparators and the company being valued. This is a long way of highlighting that there are lots of assumptions used in this process.

*NAV takes time to reflect market rating changes – up or down. Typical OCI lag two to three months, with twice-yearly NAV.*

There is also the timing issue, as it takes time for the NAV to "catch up" with market moves. A 10% drop in all share prices would, *ceteris paribus*, see a 10% fall in the share price of a PE business and in its NAV (leaving the discount unchanged), but the NAV may take a few months to reflect the lower market rating. For that period, the discount to NAV will appear higher, as it is based off ratings before the market fall. In periods of extreme market movements, such as the falls in in the initial stages of the COVID-19 crisis, this can be a material factor in the apparent discount. The reverse will also happen in rising markets, as the NAV takes time to catch up with them too. We understand that the lag for Oakley is in the region of two to three months, and we note that it releases NAV only twice a year.

**Theoretical example of time lag impact on share price discount to NAV**

| Period | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| Market level | 100 | 90 | 90 | 90 |
| Market rating (x) | 10 | 9 | 9 | 9 |
| OCI rating (x) | 10 | 10 | 9.5 | 9 |
| NAV (p) | 100 | 100 | 95 | 90 |
| OCI share price (p) | 100 | 90 | 90 | 90 |
| S/P discount to NAV (%) | 0% | -10% | -5% | 0% |

*Source: Hardman and Co Research*

*Some rapid uplifts post acquisition – may reflect buying well*

While we have confidence that the overall valuation is conservative, we note that, on occasion, in some Oakley Funds, there has been a rapid uplift in valuation after acquisition (e.g. at end-2017, Fund III saw uplifts to 1.3x, 1.6x and 2.8x for the three investments made in the first half of that year) . This does not unduly concern us (as noted above, we believe Oakley has a track record of buying cheaply), but it is something investors should be aware of.

## Long tail exit for underperformers

*Underperformers take longer to turn around, so focus realised book comparisons may not be reflective of overall performance. Heavy lifting turnaround stories not a focus for future investment.*

In some cases, exits can happen in very quick order. In others, PE, with its long-term focus, may be the right vehicle to restructure and optimise value if this requires time. However, it creates a long tail, where underperformers stay in the portfolio for longer than the performers. By way of example, at December 2019, the IRR on TMO (investment 2010 and the last investments from Fund I) was -4%, and North Sails (investment March 2014) and Daisy (investment July 2015) reported IRRs of -3% and -1%, respectively.

We note that the longstanding positions in some of Oakley's earlier Funds reflected an appetite, at the time, for restructuring stories that could be bought at an appropriate price, but that would require significant turnaround and management. Oakley has not had any interest in turnaround/heavy lifting strategies for some years.

# Other (minor) issues

## History of discount

*Discount been feature for long time – noting that other ICs have seen such a discount reverse*

Overcoming the sentiment that "it's always been at a discount and always will be" can be a significant challenge. OCI and many of its peers have traded at a discount to NAV for a substantial period. However, i) it is not justified by fundamentals, ii) management has proactively been addressing investor concerns, iii) the most recent discount may reflect a now largely cleared Woodford and Invesco overhang, and iv) other companies that have traded at a discount for a sustained period have moved to premiums, as we identified on page 9 of our report, *Investment Companies, Understanding the deepest discounts*, published on 14 May 2019. The downside risk of the discount widening significantly, even in a recession, would appear modest.

## Currency-induced, short-term volatility

*Short term, currency can see some NAV noise. Would be incredibly complex and potentially expensive to hedge out risk.*

The UK is a small part of the book (18% based on portfolio companies' assets at December), and so there is currency exposure, most notably to the Euro (52%) and, to a lesser extent, the US$ (29%). The latest sensitivity analysis (page 97 of 2019 Report and Accounts) suggests that a 10% appreciation of the Euro against the pound would see a £52m (2018 £42m) increase in the value of assets. Oakley monitors the company's currency position on a regular basis, and reports the impact of currency movements on the performance of the investment portfolio to the Risk Committee on a quarterly basis. To date, the cash cost of hedging and its complexity (Oakley Funds are denominated in Euros, and the underlying companies have different reporting currencies and very different currency sensitivities themselves) mean that hedging is not in place.

# Portfolio

OCI's portfolio is shown below.

- Oakley Funds' investments, net of fund liabilities, are £280m (40%), with historical IRR of 24%.
- Cash is 38%.
- Direct debt holdings are £125m (18%), with historical IRR of 8%.
- Direct equity holdings are £26m (3%), with historical IRR of 14%.

The detail of the portfolio is given below.

**Key metrics for portfolio companies as at June 2020**

| Company | Country | Investment date | Fund | Cost (£m) | June valuation (£m) | Sector |
|---|---|---|---|---|---|---|
| TechInsights | Canada | May 2017 | III | 0.5 | 15.9 | Technology |
| Daisy | UK | July 2015 | II and OCI | 24.6 | 26.4 (debt 16.4) | Technology |
| Ekon | Spain | June 2019 | III | 18.0 | 18.4 | Technology |
| Contabo | Germany | Oct 2019 | IV | 5.1 | 5.3 | Technology |
| | | | | | | |
| Casa.it & atHome | Italy | Jan 2017 | III | 10.2 | 27.8 | Consumer |
| Facile | Italy | June 2018 | III | 28.8 | 40.6 | Consumer |
| Time Out | Global | Nov 2010 | I and OCI | 116.6 | 48.2 | Consumer |
| North Sails | USA | March 2014 | II | 117.7 | 131.4 (96.0 debt) | Consumer |
| Alessi | Italy | Aug 2019 | III | 7.9 | In Iconic BrandCo | Consumer |
| Seven Miles | Germany | Aug 2019 | III | 24.8 | 25.1 | Consumer |
| | | | | | | |
| Career Partner | Germany | Jan 2018 | III | 1.5 | 61.3 | Education |
| Schülerhilfe | Germany | July 2017 | III | 30.8 | 46.8 | Education |
| ACE education (AMOS) | France | Aug 2017 | III | 7.1 | 12.5 | Education |
| Ocean Technologies | Norway/ UK | June 2019 | IV | 22.9 | 23.3 | Education |
| | | | | | | |
| **Investments in 2020 (cost)** | | | | | | |
| Iconic BrandCo (Globe-Trotter) | UK | April 2020 | III | 7.7* | 16.2 | Consumer |
| Time Out | Global | May 2020 | I and OCI | 21.2 (in row above) | (in row above) | Consumer |
| WebPros** | Swiss/ USA | April 2017 | IV | 44.4 | 46.3 | Technology |
| Ocean Technologies (add-ons) | | | | £2.9m (in row above) | (in row above) | Education |
| | | | | | | |
| Cash | | | | | 261 | |
| Other assets and liabilities | | | | | -115 | |

*of the £10.6m referred to in the 4 March 2020 RNS, £7.7m has been invested to date. **WebPros sale completion and re-investment through Fund IV; there was a follow-up investment of £44m booked in Fund IV. Source: OCI, Hardman and Co Research

*Direct holdings still Oakley-related, e.g. when Oakley Funds comes to end of life or Fund not in position to make follow-up investment*

Where attractive to do so, OCI takes direct equity stakes in portfolio companies when Oakley Funds can no longer make follow-up investments (e.g. TMO) or when an Oakley Fund has to sell at the end of its life. We understand that, strategically, the focus is on investing in Oakley Funds and that its exposure to, and earnings from, direct investments will decrease over time.

This reflects the fact that i) the board recognises that investments through Oakley Funds, alongside other limited partners, is a much more efficient and transparent way of operating, ii) Oakley Funds are now mainly investing in larger, growing companies that have access to other cheaper and larger sources of debt, which OCI cannot provide, so the debt element may be expected to fall. In the section on costs above, we note that the structure for performance fees for fund investments is higher than for direct investments.

*Invests directly in short-term debt to reduce cash drag effect*

If OCI has appropriate cash levels, it will consider providing debt instruments to the portfolio companies if the returns are appropriate. As noted above, at end-June, these were £125m, and 18% of the NAV, and they generate net interest income (although, in some instances, this is being rolled up) and an IRR of ca.8%. We understand that, generally, they are short-term, typically one-year, debt instruments, although the facilities are considered and sometimes rolled on an annual basis. Such investments can potentially confuse the investment message in OCI, as they provide lower returns and no capital growth. However, we believe they represent an attractive short-term alternative deployment of cash earning better returns than money markets and made in companies Oakley knows well. The key elements of the debt portfolio are:

*Arms-length debt provided to investee companies. Main exposure now to North Sails, with some to Daisy.*

- North Sails is the largest exposure (June 2020 fair value £96m, December 2019 £73.5m, December 2018 £40.6m). In note 6 of the 2019 Report and Accounts, this line was legally booked under the name Oakley NS (Bermuda) LP (£43.5m) and NSG Apparel BV (£30m), with all the growth in 2019 coming in the former.

- Debt facilities have been provided to Daisy (June 2020 fair value £16.4m, December 2019 £15.8m, 2018 £14.9m), which is booked in the accounts under the name Ellisfield (Bermuda) Limited, with an increase due to interest roll-up, which accounts for the fair value growth.

*Debt facility to Oakley Funds I and II (underlying investments TMO, North Sails, Daisy) to smooth out short-term cash requirements, e.g. so Fund does not have to make commitment call to pay expenses*

- Additionally, there are facilities provided to the Oakley Funds I and II (December 2019 fair value £14.6m, 2018 £30.6m, 2017 £13.5m). The drawings were reduced in 2019 to release OCI cash for equity investments, with repayments from Fund II and cancellation of the Fund III revolving facility. £9.4m is to Fund I (TMO) and £10.2m to Fund II (North Sails and Daisy). We understand that the rate charged is 6%. The facilities consist of £20m revolver lines, with a maximum duration of no more than one year, and £5.8m non-revolving. These loans are used to fund short-term cash requirements to pay fees and expenses as they fall due, and so the Funds do not have to make commitment calls for this. Given the underlying assets, we have ascribed a medium level in our COVID-19 risk assessment. Updated details are expected in September.

*We expect proportion to fall*

- With a strong pipeline of equity investments offering superior returns, we expect the debt element to reduce over time, given that it is a lower-return investment class.

## Recent portfolio activity

In 2019, there were six investment actions diversified across Consumer (Seven Miles £23m, Alessi £8m), Education (Seagull/Videotel £20m) and Technology (Ekon £18m, Contabo £5m), with a £43m re-investment in Technology (WebPros). £38m of the investment was in 1H and £36m in 2H, and the re-investment of £44m was also in 2H. Realisations were spread across the year and included re-financings (Career Partners £11m, WebPros £16m and Amos £3m), as well as partial realisations (Inspired £30m and WebPros £116m). As is the nature of PE, the realisations are much lumpier than the diversified investments.

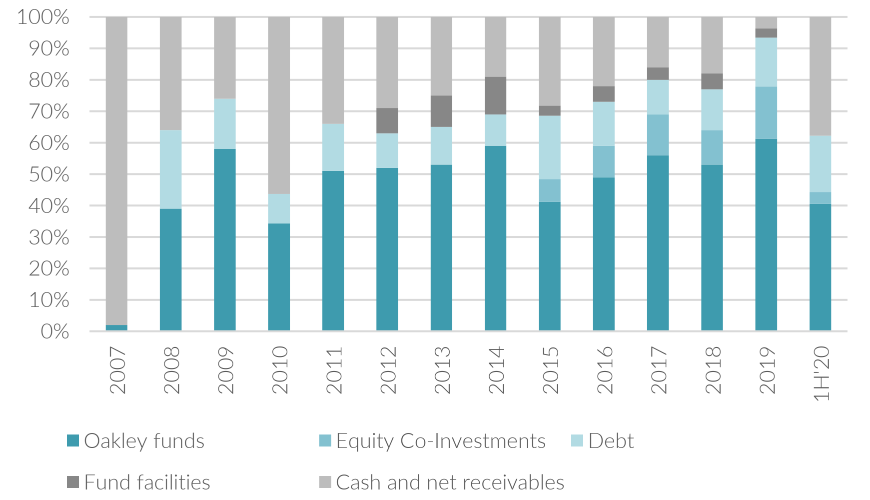
In 2020, realisations have included a refinancing at Career Partners (January), the exit at WebPros (January 6.9x Money Multiple (MM)), 152% IRR), the partial sale of atHome (March) and the April exit of Inspired (2.7x MM, 43% IRR). New investments included a roll-over into WebPros, Globe-Trotter, two add-on deals for Ocean Technologies and the re-financing of TMO.

## Evolution

*Cash (and cash drag) fallen and Fund/direct investment risen. We expect debt and Fund facilities to reduce from here.*

The market-beating returns reported at the start of this report are despite a considerable cash drag (which has averaged 25% of the portfolio since 2007). In recent years, OCI's performance has also been depressed by low-return debt and Fund facilities (average since 2012 20% of portfolio). Oakley has a very strong pipeline, which we expect to start to convert meaningfully in six to 12 months, and, at that stage, both the cash and debt facilities will be a smaller proportion of the book than at present, which should improve returns. For 2020, having such large cash balances is a positive.

Portfolio breakdown, December 2007-1H'20 (%)




*Source: OCI Report and Accounts and presentation (Fund facilities not yet disclosed for June 2020), Hardman & Co Research*

## Comparison with peers

OCI does not have any directly comparable peers. A brief description of the portfolios for the companies that investors may define as "close" peers is given below:

*Apax Global – more Healthcare and Services, bias to North America, and less concentrated*

As at June 2020, Apax Global (ticker APAX, market capitalisation £832m) had 23% of its portfolio in debt, 5% in derived equity (direct holdings) and 72% in PE (via Apax Funds). It invests in four sectors: Tech & Telco (44%), Services (28%), Healthcare (19%) and Consumer (19%). Geographically, it had 56% exposure to North America, 23% to Europe and 6% to the UK, with small concentrations in Israel, India and China. Its portfolio is significantly more diversified by underlying companies.

*HG Trust – Technology play. Much higher underlying ratings.*

HG Trust (ticker HGT, market capitalisation £1,122m) invests in software and service businesses, and is focused on eight specialist technology markets (Tax & Accounting, ERP & Payroll, Legal & Regulatory Compliance, Automotive, SME Tech & Services, Capital Markets & Wealth Management, Insurance and Healthcare), with EVs of between £50m and more than £5bn. These companies are more highly geared (top 20 average debt to EBITDA 6.2x, March 2020) and more highly rated (top 20 average EV/EBITDA 19.8x). Like OCI, HG Trust is concentrated (22 investments) and has a European (Northern) focus.

*NBPE – North American focus. Much more diversified.*

NB Private Equity Partners (ticker NBPE, market capitalisation £403m) is 87% invested in direct investments, 11% in income investments and 2% in legacy funds (July 2020). It is, however, North America-focused (77%) and sectorally diverse: IT 18%, Consumer 17%, Industrials 17%, Healthcare 15%, Business Services 11%, Financial Services 9%). It is also much more diversified (the top 10 investments are just 28% of fair value).

*Merian Chrysalis – significant financials. Newly invested.*

Merian Chrysalis (ticker MERI, market capitalisation £464m) is still deploying the capital raised (end-March 2020 19% cash) and has a concentrated portfolio, with large positions in Financials (36%) and Banks (14%), Technology (17%) and Consumer Discretionary (11%). Weighted-average revenue growth across the portfolio was in excess of 50% (measured as the growth achieved over the nine months to September 2019 on the same period a year previously). It is in the AIC growth capital sector, rather than PE.

*Other PE names even less of a comparator*

We have not included the following PE/growth capital businesses in the comments on peers, as their company profiles are very different from OCI and its peers:

- JPEL Private Equity – in wind-down mode.
- Schiehallion Fund Limited (ticker MNTN, market capitalisation £478m).
- Schroder UK Public Private Trust (ticker SUPP, market capitalisation £270m, formerly Woodford Patient Capital).

# Valuation

*Many peers at similar discounts, despite differing risk/reward profiles*

One of the more noticeable features of the discounts for PE investment companies historically was the remarkable consistency of most of their discounts to NAV. This suggested to us that the market had concerns with the whole sector. The most obvious factors would include i) sensitivity to the cycle (as detailed above, OCI's NAV in the financial crisis may not be representative of a future downturn, but it did rise in 1H'20, ICGT's annual NAV fell just 3% in one year in the early 1990s' hard recession, and Pantheon's NAV has risen every year), ii) lack of confidence in illiquid, unquoted assets (Oakley Funds are structured to avoid being a forced seller), iii) lack of confidence that the NAV is a realistic reflection of the underlying companies – we discussed in detail above why the accounting NAV at the valuation date might be considered conservative, iv) concerns about competition/dry powder – this is focused in newer, larger funds, and provides Oakley Funds with enhanced exit options, and v) fees (OCI's market-beating returns are after all costs).

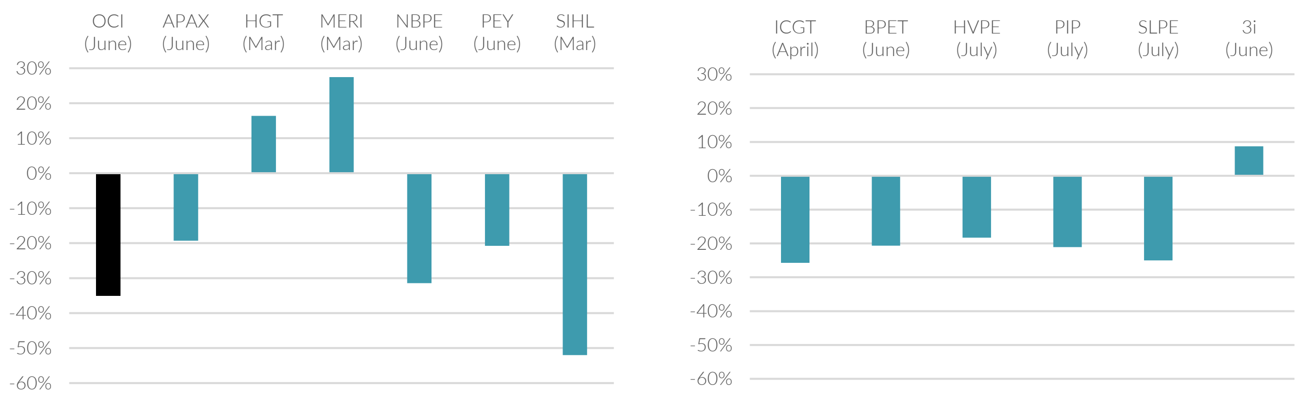
*OCI's discount appears anomalous with its market and peer-beating, long-term performance*

Since the COVID-19 crisis, the level of reported discount at OCI has widened relative to most peers. OCI has a listed, sensitive exposure in TMO, which could have also impacted sentiment. To have a relative discount appears anomalous with historical performance, where both Fund II and Fund III are top-quartile/5% by different measures. Taking an absolute rating perspective, it also appears anomalous that a company with a strong track record of growth and value-added should trade at any discount to NAV at all.

The charts below show the premium/discount ratings of a narrow and a broad range of peers along with the date of the NAV. Caution needs to be exercised as where the NAV is at March we would expect a smaller discount as the share price may reflect market rises since but the NAV may not yet catch up. However as we discuss below, the picture is even more complicated as some June valuations are based off March underlying. Among the direct investors:

- Apax, NBPE, PEY and SIHL all trade on significant discounts.
- HG is on a premium to peers, but it is a fund very focused on IT, with the opportunities, risks and underlying valuations this presents.
- Merian Chrysalis has had "robust trading" and believes having some investments in the form of preference structures give it downside protection (see its 27 May quarterly NAV update).

**Current share price discount to latest NAV (%) for narrow (LHS) and wider peers (RHS)**




*Source: Company websites, factsheets and presentations, Hardman & Co Research, priced at 26 August 2020*

## Gordon Growth Model (GGM)

*GGM model would indicate OCI should trade on multiple of book*

As an investment company, it is a standard practice to consider the discount/premium to NAV. However, if OCI were a trading business, we would consider the GGM, which focuses on sustainable returns, cost of equity and growth. A business that delivers returns above cost of capital should trade at a premium to book value, as it is adding value for shareholders. A growing company delivering returns above cost of capital should be at a higher multiple than a company with no growth. There is a debate about what are sustainable returns, cost of equity and growth. In the current low long-term interest rate environment, we would argue that a track record of an average IRR net of costs of 29% (Oakley Fund II) and 42% (Oakley Fund III) is indicative of a business whose current strategy is generating returns considerably above cost of capital, and thus one that should trade well above book.

## Impact of timing on the NAV

*NAV for OCI and peers time-lagged*

As we noted above, PE NAVs are not calculated daily. OCI reports twice a year and, at those reporting dates, the valuations are based off ratings typically two to three months earlier. If there is a rapidly rising or falling market, the NAV will lag the market movement, but the share price is likely to reflect it. In the recent turmoil, the share price has fallen, the NAV is unchanged, and so the discount has widened. We note that comparisons with peers will be impacted by their timeliness. HVPE reports its June NAV that 11% is based off June valuations but 89% off March. Pantheon adopted an 8% manager's provision to catch up its December valuations to March.

## What could lead to a re-rating?

*Key triggers for re-rating include continued performance, better market understanding, recognition that major stock overhangs have been significantly eliminated, and more comfort that impact on NAV of any economic downside scenario will not be as adverse as feared.*

We noted earlier in this report that OCI and, indeed, its peers have traded at discounts to NAV for a considerable time. While investors have been rewarded by market-beating NAV growth, it is also worth noting that there are a number of potential triggers that could deliver incremental returns by closing the 35% discount to end-June valuations. These include:

- Market concerns about illiquid/unquoted stocks moderating. We do not believe this issue will go away quickly – not least as there may be regulatory changes to fund holdings of illiquid assets. However, we do expect a steady moderation in its intensity from here.
- Market perception of stock overhang moderating. On 14 March 2019 (as disclosed in the 2018 Report and Accounts), Woodford IM held 19.8% and Invesco Perpetual 20.4% of OCI shares. As shown on the front page of this report, these holding have been reduced to nil and 10%, respectively, and there have been new disclosable holdings by Barwon IM, Lombard Odier & City of London IM, as well as significant increased holdings by some others (including a near doubling of OCI directors, employees and related parties to ca.9.5%).
- Delivery of strong performance, in line with historical experience, through an economic downturn.
- We have stated that the discount appears anomalous. In this case, one key consideration will be communication. We note that OCI is active in its investor engagement to address this issue, attending multiple conferences, adopting sponsored research, and re-invigorating the website and Report and Accounts.

*Timing issue has inflated discount at present, as share price marked-to-market, while NAV catches up over time*

The level of discount will vary, as the share price reflects investors' views of the marked-to-market of assets, while the NAV is an irregularly calculated number. The timing difference will be eliminated by either i) if market levels are sustained, the NAV is likely to reduce, reflecting lower valuation rating multiples, or ii) if markets recover, then the share price will rise and the NAV will not reduce. We also note that our best estimate is for only a modest fall in NAV on a marked-to-market basis.

# Financials

## Profit and Loss

| Year-end Dec (£000) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|---|---|
| Interest income | 5,053 | 11,637 | 7,722 | 6,629 | 9,218 | 10,043 | 9,743 |
| Net realised gains at FV through P&L | 29,041 | 8,545 | 23,991 | 102,314 | 17,840 | 26,000 | 13,763 |
| Net unrealised gains/losses through P&L | -3,561 | 46,196 | 20,316 | -23,877 | 127,741 | 30,000 | 55,051 |
| Net foreign currency gains/(losses) | -2,000 | 4,733 | -839 | 3,149 | -2,715 | 0 | 0 |
| Other income | 597 | 140 | 306 | 217 | 1,073 | 467 | 467 |
| Total income | 29,130 | 71,251 | 51,496 | 88,432 | 153,157 | 66,510 | 79,023 |
| Expenses | -7,319 | -4,519 | -6,529 | -6,045 | -17,888 | -24,920 | -18,763 |
| Operating profit | 21,811 | 66,732 | 44,967 | 82,387 | 135,269 | 41,590 | 60,260 |
| Interest expenses | -2 | -55 | -42 | -389 | 0 | 0 | 0 |
| Pre-tax profit | 21,809 | 66,677 | 44,925 | 81,998 | 135,269 | 41,590 | 60,260 |
| Tax | -235 | 0 | 0 | 0 | 0 | 0 | 0 |
| Attributable profit | 21,574 | 66,677 | 44,925 | 81,998 | 135,269 | 41,590 | 60,260 |
| | | | | | | | |
| Average no shares (000s) | 174,008 | 189,901 | 203,859 | 204,804 | 204,113 | 194,697 | 190,600 |
| EPS (£) | 12.4 | 35.1 | 22.0 | 40.0 | 66.3 | 21.4 | 31.6 |
| DPS (p) | | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 | 4.5 |

*Source: OCI Report and Accounts, Hardman & Co Research*

## Balance sheet

| @ 31 Dec (£000) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | | |
| Oakley Fund | 158,369 | 211,254 | 282,663 | 298,581 | 420,316 | 434,964 | 628,520 |
| Co Investment Fund | 0 | 0 | 26,280 | 41,789 | 74,984 | 0 | 0 |
| Quoted | 0 | 43,854 | 41,182 | 22,320 | 38,510 | 23,793 | 23,793 |
| Other unquoted | 25,950 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt | 104,897 | 85,761 | 69,502 | 107,059 | 127,156 | 118,252 | 98,252 |
| **Total investments** | 289,216 | 340,869 | 419,627 | 469,749 | 660,966 | 577,009 | 750,566 |
| Current assets | | | | | | | |
| Cash and cash equivalents | 95,520 | 106,509 | 117,836 | 107,888 | 48,866 | 178,470 | 73,700 |
| Receivables | 5 | 673 | 668 | 11 | 40 | 100 | 100 |
| **Total assets** | 384,741 | 448,051 | 538,131 | 577,648 | 709,872 | 755,579 | 824,366 |
| Creditors | 2,591 | 9,619 | 36,091 | 2,826 | 23,864 | 36,558 | 53,662 |
| Net Assets | 382,150 | 438,432 | 502,040 | 574,822 | 686,008 | 719,021 | 770,704 |
| NAV per share (£) | 2.00 | 2.31 | 2.45 | 2.81 | 3.45 | 3.75 | 4.02 |

*Source: OCI Report and Accounts, Hardman & Co Research*

## Cashflow

| Year-end Dec (£000) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020E | 2021E |
|---|---|---|---|---|---|---|---|
| Purchase of portfolio investments | -131,118 | -178,228 | -167,047 | -165,302 | -127,265 | -150,000 | -250,000 |
| Sale of portfolio investments | 122579 | 173,554 | 167,773 | 158,712 | 90,005 | 300,000 | 155,000 |
| Interest income | 1,687 | 17,403 | 7,001 | 7,077 | 842 | 10,043 | 9,743 |
| Expenses aid | -6,759 | -4,704 | -5,967 | -4,196 | -7,009 | -16,920 | -10,763 |
| Interest expense paid | -2 | -55 | -42 | -389 | 0 | 0 | 0 |
| Other income received | 597 | 140 | 306 | 217 | 1,073 | 467 | 467 |
| Net cash inflow/(outflow) from operating activities | -13,016 | 8,110 | 2,024 | -3,881 | -42,354 | 143,590 | -95,553 |
| | | | | | | | |
| Cashflows from financing activities | | | | | | | |
| New shares issued | 126,824 | 0 | 0 | 0 | 0 | 0 | 0 |
| Purchase/sale of shares into treasury | -23,170 | -1,854 | 23,291 | 0 | -4,737 | -4,770 | 0 |
| Dividends | 0 | 0 | -13,149 | -9,216 | -9,216 | -9,216 | -9,216 |
| Net cash inflow from financing activities | 103,654 | -1,854 | 10,142 | -9,216 | -13,953 | -13,986 | -9,216 |
| | | | | | | | |
| Net increase in cash and cash equivalents | 90,638 | 6,256 | 12,166 | -13,097 | -56,307 | 129,604 | -104,769 |
| Opening cash and cash equivalents | 6,882 | 95,520 | 106,509 | 117,836 | 107,888 | 48,866 | 178,470 |
| FX effects | -2,000 | 4,733 | -839 | 3,149 | -2,715 | 0 | 0 |
| Closing cash and cash equivalents | 95,520 | 106,509 | 117,836 | 107,888 | 48,866 | 178,470 | 73,700 |

*Source: OCI Report and Accounts, Hardman & Co Research*

| Investments analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year-end Dec (£000)** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020E** | **2021E** |
| Total investments | | | | | | | |
| Opening | 220,344 | 289,216 | 340,869 | 419,627 | 469,749 | 660,966 | 577,009 |
| Additions | 133,115 | 176,231 | 201,504 | 130,845 | 127,265 | 150,000 | 250,000 |
| Sales | -94,651 | -190,767 | -175,042 | -165,795 | -91,813 | -300,000 | -155,000 |
| Realised gains | 29,041 | 8,545 | 23,991 | 102,314 | 17,840 | 26,000 | 13,763 |
| Change in unrealised revaluation | 1,007 | 57,082 | 20,316 | -23,877 | 127,741 | 30,000 | 55,051 |
| Other, inc, FX and interest | 360 | 562 | 7,989 | 6,635 | 10,184 | 10,043 | 9,743 |
| Closing | 289,216 | 340,869 | 419,627 | 469,749 | 660,966 | 577,009 | 750,566 |
| | | | | | | | |
| Oakley Funds | | | | | | | |
| Opening | 151,857 | 158,369 | 211,254 | 282,663 | 298,581 | 420,316 | 434,964 |
| Additions | 27,146 | 41,846 | 124,590 | 58,829 | 64,776 | 70,245 | 220,000 |
| Sales | -45,520 | -48,636 | -78,457 | -130,526 | -39,909 | -122,096 | -105,000 |
| Realised gains | 29,041 | 9,403 | 15,591 | 102,314 | 17,840 | 6,000 | 13,763 |
| Change in unrealised revaluation | -4,155 | 50,272 | 9,685 | -14,699 | 79,028 | 50,456 | 55,051 |
| Other, inc. FX and interest | 0 | 0 | 0 | 0 | 0 | 10,043 | 9,743 |
| Closing | 158,369 | 211,254 | 282,663 | 298,581 | 420,316 | 434,964 | 628,520 |
| | | | | | | | |
| Co Investment Fund | Inspired | | | | | | |
| Opening | 0 | 0 | 0 | 26,280 | 41,789 | 74,984 | 0 |
| Additions | 0 | 0 | 39,932 | 5,825 | 672 | 0 | 0 |
| Sales | 0 | 0 | -35,355 | 0 | 0 | -99,000 | 0 |
| Realised gains | 0 | 0 | 8,400 | 0 | 0 | 20,000 | 0 |
| Change in unrealised revaluation | 0 | 0 | 13,303 | 9,684 | 32,523 | 4,016 | 0 |
| Other, inc. FX and interest | 0 | 0 | 0 | 0 | | | |
| Closing | 0 | 0 | 26,280 | 41,789 | 74,984 | 0 | 0 |
| | | | | | | | |
| Quoted | Time out | | | | | | |
| Opening | 0 | 0 | 43,854 | 41,182 | 22,320 | 38,510 | 23,793 |
| Additions | 0 | 47,155 | 0 | 0 | 0 | 9,755 | 0 |
| Sales | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Realised gains | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in unrealised revaluation | 0 | -3,301 | -2,672 | -18,862 | 16,190 | -24,472 | 0 |
| Other, inc. FX and interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Closing | 0 | 43,854 | 41,182 | 22,320 | 38,510 | 23,793 | 23,793 |
| | | | | | | | |
| Debt | | | | | | | |
| Opening | 68,487 | 104,897 | 85,761 | 69,502 | 107,059 | 127,156 | 118,252 |
| Additions | 80,253 | 80,476 | 36,982 | 66,191 | 61,817 | 70,000 | 30,000 |
| Sales | -49,131 | -109,976 | -61,230 | -35,269 | -51,904 | -78,904 | -50,000 |
| Realised gains | 0 | 560 | 0 | 0 | 0 | 0 | 0 |
| Change in unrealised revaluation | 4,928 | 10,345 | 0 | 0 | 0 | 0 | 0 |
| Other, inc. FX and interest | 360 | -541 | 7,989 | 6,635 | 10,184 | 0 | 0 |
| Closing | 104,897 | 85,761 | 69,502 | 107,059 | 127,156 | 118,252 | 98,252 |

*Source: OCI Report and Accounts, Hardman & Co Research*

In 2020, we assume no further realisations and only modest deployment of cash. We assume that there will be an element of recovery in the second half, so that the full-year NAV will be flat year-on-year.

In 2021, our base assumption is that it will be a more normal year, with OCI achieving 3% realised gains and 12% unrealised gains. We assume that there will be a significant (record) deployment of cash into investments, but year-end cash balances will still remain high.

# Appendix 1: company matters

Oakley Investments Limited is a closed-ended company governed by the provisions of the Companies Act 1981 of Bermuda, and is listed on the Specialist Fund Segment of the Main Market of the London Stock Exchange. The rights of OCI shareholders may differ from the rights of shareholders of a company incorporated in the UK. Oakley Investments Limited ("OCI") is registered in Bermuda, with company number 40324 and registered office 3rd Floor, Mintflower Place, 8 Par-la-Ville Road, Hamilton HM08, Bermuda.

## Board of Directors

### *Caroline Foulger – Chair*

Appointed on 7 June 2016 (appointed Chair September 2018). Caroline Foulger has been an independent non-executive director in the financial services industry since early 2013. In addition to her seat on the OCI board, Caroline currently sits on the board of a FTSE 100 insurance company, a New York Stock Exchange listed bank and a number of private companies. Caroline was previously a partner with PwC for 12 years, primarily leading the insurance practice in Bermuda, serving listed clients with both audit and advisory services, and has 25 years' experience in public accounting. Caroline is a Fellow of the Institute of Chartered Accounts in England & Wales and a Member of the Institute of Directors. Caroline is a resident of Bermuda.

### *Peter Dubens – Non-Executive Director*

Appointed on 3 July 2007, Peter Dubens is the founder and Managing Partner of the Oakley Group, a privately-owned asset management and advisory group comprising Private Equity, Venture Capital and Corporate Finance, managing approximately €2.8bn. Peter founded Oakley in 2002 to be a best-of-breed, entrepreneurially-driven UK investment house. He wanted to create an ecosystem that supports companies through investment, whether they are early-stage (through the venture capital businesses) or more established companies (through Oakley Funds).

### *Stewart Porter – Non-Executive Director*

Appointed on 25 September 2018, Stewart has over 40 years of operational experience, both within the PE and TMT businesses, the latter being one of Oakley Funds' three core sectors for investment. During his career, Stewart has held positions as COO and CFO at Wilkinson Sword and TI Group, as well as Director of Finance & Business Development for Global Markets at Cable & Wireless. Stewart was a founder and CFO of Pipex Communications plc. Stewart was instrumental in the development and successful sale of the Pipex group, helping it to grow from early-stage startup in 2000 to a business with over £400m of revenues in 2009, driven mainly by a series of 14 acquisitions. Stewart recently retired as COO of Oakley Limited.

### *Richard Lightowler – Non-Executive Director*

Appointed in December 2019, Richard has 25 years' experience in public accounting and recently retired as Partner of KPMG in Bermuda, after almost 19 years in the role. He was head of the KPMG Insurance Group in Bermuda for almost 14 years, and was a member of the firm's Global Insurance Leadership Team and Global Lead Partner for large international insurance groups listed on the New York and London Stock Exchanges. Richard is a resident of Bermuda, and he is a Chartered Accountant of England & Wales. Richard has significant regulatory experience, and led KPMG's relationship with the Bermuda Monetary Authority ("BMA"). He has a continuing role advising the BMA on regulatory matters. Richard brings with him a wealth of knowledge in financial services, expertise in best-practice corporate governance and significant transactional experience.

## Investment Managers

**Peter Dubens** – Managing Partner. He founded Oakley in 2002, with more than 20 years' experience as a serial entrepreneur, including success in the public markets and TMT sector with Pipex and 365 Media.

**David Till** – Senior Partner. He co-founded Oakley with Peter Dubens, having previously developed Pipex and 365 Media. He had previous experience in Andersen Consulting and Ernst and Young. David is now responsible for operations and the development of Oakley and its activities.

**Alex Collins** – Partner. He joined Oakley in September 2007. He has 20 years' investment and operational experience, having previously been at Advent and Henderson Private Capital. Alex has sector experience in media, consumer and digital commerce.

**David Brickell** – Partner. He joined Oakley in September 2013. He has more than 15 years' investment experience, and was a co-founder of a SaaS internet startup. His sector experience includes TMT and consumer industries.

**Rebecca Gibson** – Partner. She joined Oakley in March 2014, and now has more than 15 years' investment experience. She was previously a Partner at Cinven, and her sector experience includes healthcare, retail, service sectors and consumer.

**Arthur Mornington** – Partner. He joined Oakley in January 2017, and now has more than 15 years' investment experience. He was previously a Partner at Charterhouse, and his sector experience includes media, education and business services.

**Ralf Schremper** – Partner. He joined Oakley in August 2017, and now has more than 15 years' investment experience. He was previously a Member of the Executive Board and CIO at ProSiebenSat.1. His sector experience includes media, education, consumer and healthcare.

**Steven Tredget** – Partner, Investor Relations. He joined Oakley in March 2017, and has more than 18 years' investment banking experience. He was a founding Partner of investment bank Liberum Capital, and has responsibility for fundraising, communications and investor relations.

# Appendix 2: glossary

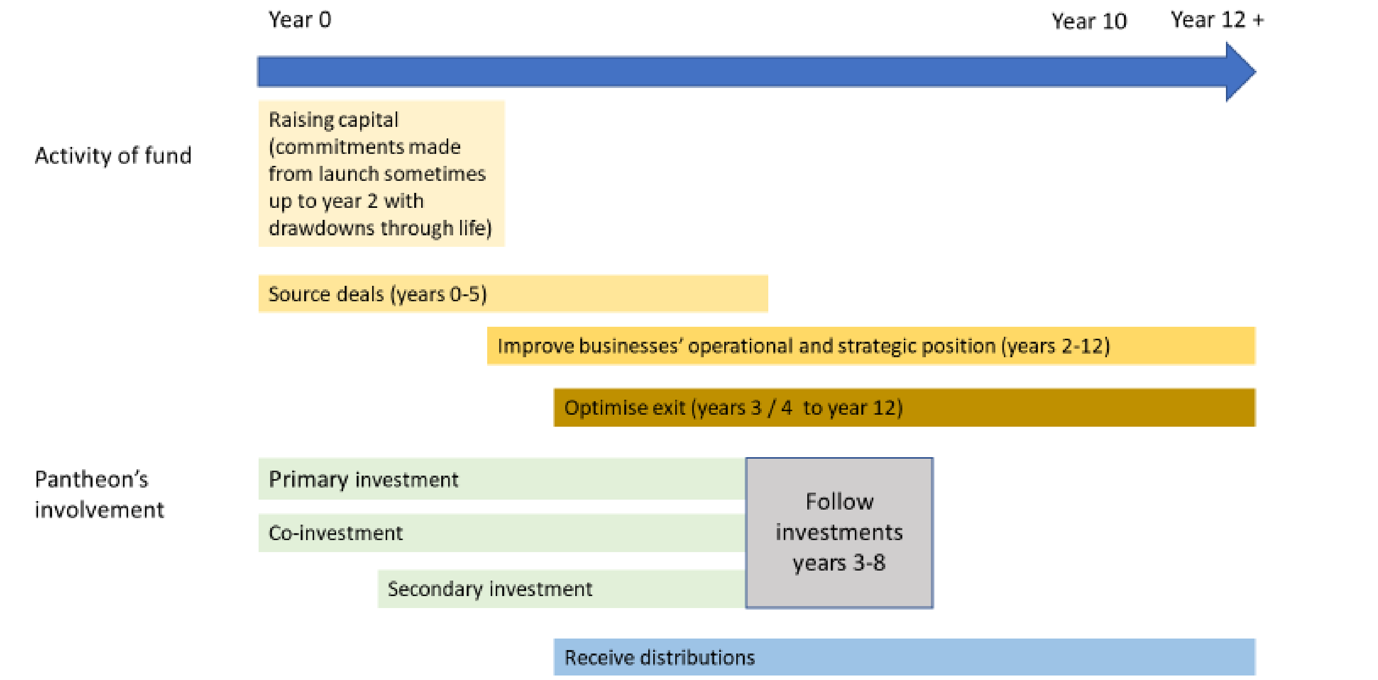
OCI provides a detailed glossary of terms and alternative measures on pages 115 of its 2019 Report and Accounts. We provide a summary below.

| Glossary | |
|---|---|
| **Alternative Performance Measures ("APMs")** | A term defined by the European Securities and Markets Authority as "financial measures of historical or future performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework". APMs are used in the Report and Accounts if considered by the Board and the Manager to be the most relevant basis for shareholders in assessing the overall performance of the company, and for comparing the performance of the company with its peers, taking into account industry practice. |
| **Buyout funds** | Funds that acquire controlling interests in companies with a view towards later selling those companies or taking them public. |
| **Carried interest** | This is equivalent to a performance fee. It is the portion of realised investment gains payable to the General Partner (GP) as a profit share. |
| **Co-investment** | Direct shareholding in a company by invitation, alongside a PE fund. For OCI, the Co-investment Fund is OPCE Education (Feeder) L.P., which, together with OCPE Education L.P., collectively comprise "OCPE Education". |
| **Commitment** | The amount of capital that each Limited Partner (LP) agrees to contribute to the Fund when and as called by the GP. |
| **Debt multiple** | Ratio of net debt to EBITDA. |
| **Dry powder** | Funds committed and available for investment that are not yet invested. |
| **Full realisations** | These are exit events (e.g. trade sale, sale by public offering, or sale to a financial buyer), following which the residual exposure to an underlying company is zero or immaterial. |
| **Funds in investment period** | Funds that are able to make new platform investments under the terms of their fund agreements – usually up to five years after the initial commitment. |
| **General partner ("GP")** | The entity managing a PE fund that has been established as a limited partnership – also commonly referred to as the PE fund manager. |
| **Investment period** | Period, typically five years, during which the GP is permitted to make new investments. |
| **J-Curve** | Refers to the tendency of PE funds to experience capital outflows and negative returns in early years, and cashflow distributions and investment gains in later years, as portfolio companies mature and are exited. |
| **Limited partner ("LP")** | Institutions or individuals who commit capital to a PE fund established as a limited partnership. LPs are generally protected from legal actions and any losses beyond their original commitment to the fund. A Limited Partnership includes one or more general partners, who have responsibility for managing the business of the partnership and have unlimited liability, and one or more limited partners, who do not participate in the operation of the partnership and whose liability is ordinarily capped at their capital and loan contribution to the partnership. In typical fund structures, the GP receives a priority profit share ahead of distributions to LPs. |
| **Net asset value per share total return** | This is the change in the company's net asset value per share, assuming that dividends are re-invested at the end of the quarter in which the dividend was paid. |
| **Overcommitment** | This refers to where PE fund investors make commitments exceeding the amount of cash immediately available for investment. When determining the appropriate level of overcommitment, careful consideration needs to be given to the rate at which commitments might be drawn down, and the rate at which realisations will generate cash from the existing portfolio to fund new investment. |
| **Primaries** | Commitments made to PE funds at the time such funds are formed. |
| **Private equity ("PE")** | Privately negotiated investments typically made in non-public companies. |
| **Secondary investments** | Purchase of existing PE funds and commitments from an investor seeking liquidity in such funds or companies. |
| **Undrawn/ outstanding commitments** | Undrawn portion of total commitment. |
| **Uplift on exit** | Increase in value received upon exit realisation of an investment relative to its carrying value prior to realisation. |
| **Valuation multiple** | Multiple of earnings (typically EBITDA or net income) or revenue applied in valuing a business enterprise. |
| **Venture capital** | Investment in early and development-stage companies, often used to finance technological products and market development. |
| **Vintage** | The year in which a PE fund makes its first investment. |

*Source: OCI Report and Accounts, Hardman and Co Research*

# Appendix 3: lifecycle of PE fund

**Theoretical timeline for a PE fund**




*Source: Hardman & Co Research*

PE firms, known in industry parlance as GPs, initially raise committed money from institutional investors, such as quoted fund of PE funds, pension funds, insurance companies and family offices. Initially, the capital is only a commitment and is only drawn down (or "called") as it is required, and this process starts before the fund is actually launched. GPs also invest their own money into the funds they manage. This is to ensure that they have "skin in the game", i.e. their interests are aligned with that of their LPs.

*Can take many years to deploy funds*

The monies are put into a fund structured as an LP and managed by the GP, and the capital is used to invest in companies, for either a minority or majority equity stake. It can take many years after the funding line has been committed before it is fully drawn down as, typically, PE funds are investing through the five- to six-year investment period. Indeed, after companies have been acquired, it is very common for there to be further capital injections (say to fund acquisitions or investments). Such follow-on investments can be substantial and for much of the life of the fund. The line to which OCI has initially committed may not actually be needed for several years, and is likely to be substantially drawn in years two to five, but it may not be fully drawn in this period.

As noted earlier, while PE funds have a notional life span of 10 years, most have one- or two-year extensions in the documentation, and many have an actual life stretching out as far as 15 years. Money is returned to investors as investments are realised, and this may start as early as year three, although more substantial returns are not usually made for several years. By the end of the life of the fund, they will have had to return all the investors' original money, plus any additional returns made. It is the institutional investors in the funds – known as LPs – who first receive any returns generated by a fund. It is only when these returns pass a certain point, known as the "hurdle rate", that the GPs receive any performance-related/carried interest.

# Appendix 4: brief description of portfolio companies

In the table below, we have extracted from OCI's website a brief description of the investee companies and OCI's involvement in them, together with OCI's comment on the market dynamics.

Portfolio Companies

| Company | Company | Market Dynamics |
|---|---|---|
| **Alessi (now in Iconic BrandCo)** | Alessi is a leading Italian high-end design business. Founded in 1921, Alessi is a producer of high-end premium consumer goods. Partnering with renowned designers, Alessi creates iconic household products with a focus on tableware and kitchenware. We acquired a controlling stake in the business in August 2019 and will work alongside the Alessi family to develop the company. Our deep expertise in marketing and shaping digital strategies for consumer driven businesses will help to strengthen and expand the proposition of the brand. | The 'premiumisation' of the consumer goods market and increasing appetite for design-led products offers significant room for growth, both in Europe and on a global scale. As an established and widely recognised brand, Alessi is well-placed to take advantage of market consolidation and further strengthen its premium appeal. |
| **ACE Education (AMOS)** | AMOS is France's leading business school focused exclusively on sport business. Founded in 2005 by Patrick Touati, AMOS educates over 1,800 students each year across eight campuses in France and one in the UK. We acquired a majority stake in AMOS in August 2017. The deal forms part of our roll-up strategy in the higher education sector, which involves a partnership with Nadim Nsouli to replicate the success of the independent school group, Inspired, in the K-12 (Kindergarten to Year 12) market. | AMOS has established a strong position in the higher education market, a fast-growing market with high barriers to entry and limited cyclical risk. Because of the fragmented market, there is an attractive buy-and-build opportunity – an exciting prospect for AMOS over the coming years. |
| **Career Partner Group** | Career Partner Group is the fastest-growing private university group in Germany with over 23,000 students enrolled across four types of program: online degree courses, dual studies, part-time studies and corporate training. We acquired a majority stake in the company in November 2017, partnering with the entrepreneurial management team and acquiring the business in a carve-out from Apollo Education Group, a leading US-corporate in the higher education space. | The market for online and dual studies degrees is growing rapidly, with 8% growth forecast for both. Establishing itself as a leader in this fragmented market, Career Partner Group has grown rapidly, recording a student intake CAGR of ~50% over the past three years. |
| **Casa.it & atHome** | An online property group with a portfolio of real estate websites and apps. We acquired a majority stake in Casa.it & atHome in January 2017, backing the existing management team to acquire the group in a carve-out from its parent company. Being the only party to submit an offer to acquire both companies helped us to secure the deal. The investment continues our track record of investing in online digital consumer businesses. | Being less developed than most western European markets, Italy has significant headroom for growth, and the professionalisation of the real estate market is set to spark a significant increase in the use of online property portals. The Luxembourg market is more mature, but retains high growth opportunities. |
| **Contabo** | Contabo is a cloud hosting platform used by developers, entrepreneurs and SME's for webhosting, development and storage. The firm is known in the market for its technology edge, high performance, customer support and competitive pricing. We acquired a controlling stake in the business from the founders in October 2019 and will invest alongside proven hosting entrepreneurs from the Oakley network to develop the company. Our deep expertise from investing successfully in the hosting sector will help to further professionalise the business and maintain its strong growth trajectory. | Driven by developers and SMEs that are digitalising their market presence leading to increased demand for cloud infrastructure solutions to deploy applications, Contabo's target market segment is growing at double digit growth rates. Within the hosting market, the business operates in an attractive and sustainable niche and has a loyal tech-savvy and global customer base of developers, entrepreneurs and SMEs. |
| **Daisy** | The UK's No. 1 provider of B2B communications, IT and cloud services. Formed in 2001, Daisy has grown into one of the UK's leading telecommunications providers, with 360,000 indirect and direct customers, c2,100 partners, c4,000 employees, and 30+ locations nationwide. We acquired a minority stake in Daisy in July 2009. By the time the company went private in November 2014, its market capital had increased from £204m to £494m. We then reinvested in Daisy in July 2015, following its acquisition of Phoenix IT Group PLC. | Daisy holds a strong position in the telecommunications market, which is witnessing a shift from fixed voice services to mobile, data and cloud solutions. This evolving market is creating a number of smaller companies that make for viable acquisition targets. Such acquisitions would help to further consolidate the market and strengthen Daisy's position. |

| | | |
|---|---|---|
| **Ekon** | Ekon is a leading Spanish provider of Enterprise Resource Planning Software. Founded in 1963, Ekon provides Enterprise Resource Planning (ERP) software to over 1,000 small to medium-sized (SME) businesses in Spain. Ekon's modular software suite includes horizontal functionality across Finance, HR, CRM and operations, with dedicated vertical modules for its core end markets: manufacturing, wholesale, health, retail and construction. Ekon's ERP is available in the cloud or on-premise. In June 2019, we partnered with management to acquire a majority stake in the company as a carve-out from Unit4. | Compared to Northern Europe and North America, Spain has lower ERP adoption amongst SMEs and has been slower to move to the cloud, offering significant headroom for growth as Spain moves in-line with international benchmarks. With a leading cloud product and positioning as a Spanish champion, Ekon is well placed to benefit from the structural shift to the cloud in a market dominated by legacy technology and international vendors. |
| **Facile** | Italy's leading price comparison website. Facile has built a strong position in Italy's fast-growing online price comparison market, and helps over 1.5 million Italians to save money every month. After broadening its offer, it now offers price comparisons on gas and electricity, broadband, bank accounts, loans and mortgages as well as its core car insurance comparison service. We originally acquired a majority stake in Facile in September 2014, using our existing knowledge of the sector to move quickly and secure the management's backing early in the process. After four years of strong growth we sold a majority stake to EQT in June 2018, but remain investors through Fund III to take advantage of the further growth potential. | The Italian price comparison market is relatively undeveloped versus other markets such as the UK and Germany. At the time of acquisition, online penetration of the car insurance market was at only 10%, versus 80% in the UK, providing substantial growth potential, and Facile's position as the market leader means it is well-placed to take advantage of future market growth. |
| **Globe-Trotter (now in Iconic BrandCo)** | Founded in 1897, Globe-Trotter is a British luxury luggage brand. Its world-renowned suitcases are known for their distinguished design and construction, with products that are handcrafted in the UK by skilled artisans, using original manufacturing methods and machinery. We acquired a majority stake in the business in March 2020 and through our investment, we intend of strengthen Globe-Trotter's positioning in the luxury travel luggage market, with continued online and offline expansion, product innovation leadership and operational excellence. | The luxury travel goods market has achieved strong historical growth of 5% p.a., benefiting from growth tailwinds driven by global macro and luxury travel trends. Whilst global market conditions are currently challenging for all businesses in light of coronavirus, both the luxury and travel goods markets have been shown to rebound following previous major global crises and recessions. With a loyal and influential customer base, including celebrities, royals and socialites, who are willing to spend on luxury consumption, Globe-Trotter is well placed to become a global player. |
| **North Sails** | The world leader in sail-making. North Sails manufactures high-performance sailing and sportswear products. Its focus is on innovation, and is renowned for the 3Di model, the sail of choice in the America's Cup, the Grand Prix, and on most ocean race boats and superyachts. North Sails also produces and distributes branded sportswear across the world, partnering with over 700 chain and independent retailers across Europe and Asia. Other brands in the Group are; Southern Spars, the world leader in composite spars, rigging and marine components; EdgeWater Boats, a line of high-performance outboard sport boats; and North Thin Ply Technology, a developer of thin ply carbon pre-pregnated for non-marine markets such as aerospace. We invested in North Sails in 2014, and we're helping the business grow on a global scale through leveraging the heritage of the sail brand and developing its sportwear offering internationally. | North Sails is the leader in its market, and there is a key opportunity to drive significant growth by expanding the North Sails brand beyond just sails and into sportswear, apparel and accessories. The clothing brand is already well known in the Italian market having launched there in 1986, and there is the opportunity to replicate this success on a global scale. |
| **Schülerhilfe** | The leading provider of after-school tutoring across Germany and Austria. Established in 1974, Schülerhilfe provides small-group tutoring to over 125,000 primary and secondary school students in 1,000 branches across Germany and Austria. Lessons are given in small groups, a method shown to produce better results at a much lower cost than 1:1 tutoring. We acquired a majority stake in Schülerhilfe in July 2017, partnering with CEO, Dieter Werkhausen, who also invested in the new structure. | Germany is home to a large tutoring market worth approximately €1.1bn. The sector enjoys a growing and non-cyclical demand from parents who want to help their children meet annual exam requirements. Schülerhilfe holds a strong position as the clear market leader. |

| | | |
|---|---|---|
| **Ocean Technologies (was Seagull & Videotel)** | Seagull & Videotel are the leading maritime e-learning businesses globally Over the past 40 years, Videotel and Seagull have established themselves as the best-in-class providers of e-learning to the maritime sector globally. Every year they collectively provide almost 20,000 ships and installations with comprehensive and up-to-date compliance, risk and safety training that ensures adherence to International Maritime Organisation requirements. | The digital transformation taking place in the shipping industry, as well as the increasingly complex regulatory framework, offers a significant opportunity for e-learning providers. With both parties able to collaborate and share knowledge and resources, the two businesses will be able to provide their respective customers with a greater level of product and services. |
| **Seven Miles** | Seven Miles is a leading consumer technology company in multi-brand gift cards. Based in Germany, Seven Miles is a leading consumer technology company in the gift voucher and B2B gift card sector. Since it was founded in 2014, the business has grown rapidly to become one of the leading physical and digital gift card networks in the DACH region. In August 2019, we acquired a majority stake in the business, partnering with its founders, Tom Schröder and Valentin Schütt to create a sustainable platform and continue the company's strong growth and leadership in product innovation. | The multi-brand gift card market in Germany is expected to grow at over 15% per year in the coming years, as consumers increasingly value the convenience and flexibility that make gift cards an attractive present for many occasions. |
| **TechInsights** | A global leader in the intellectual property and technology services market. TechInsights is a global leader in intellectual property services and technology intelligence. Since 1989, TechInsights has been trusted by the world's leading technology companies to support IP licensing activities and inform technology strategies by leveraging its proprietary database of technical intelligence and unparalleled reverse engineering capabilities. Introduced by an Oakley network relationship, we acquired a majority stake in May 2017. | TechInsights benefits from high barriers to entry due to its patented processes, proprietary equipment, specialised workforce and unique database. |
| **Time Out** | Enables people to experience the very best of the city. Time Out's digital and physical presence comprises websites, mobile, magazines, Live Events and Time Out Market. Across these platforms Time Out distributes its curated content around the best food, drink, music, theatre, art, travel and entertainment across 315 cities and in 58 countries. Oakley invested in Time Out in 2010 and has worked closely with management on its successful print to digital transformation and the expansion of the Time Out Market concept. Time Out Market brings the best of the city together under one roof: its best restaurants, bars and cultural experiences, based on Time Out's editorial curation. | Professional and trusted content is never more in demand with consumers and advertisers alike. Demonstrated by c.150m monthly audience enjoyed by Time Out. The brand's status has allowed it to attract the best chefs and high footfall to its Markets, that are now in demand worldwide. |

*Source: OCI website, Hardman and Co Research*

# Appendix 5: costs for OCI and peers

| Reported management fee | Comment |
|---|---|
| OCI | A fee equal to 2% per annum of the net asset value (before deduction of any accrued performance fees) of all investments held by the Company except for the investments in and any revolvers with Fund I, Fund II and Fund III and any loans to entities affiliated with the Administrative Agent. The fee is pro rata for partial periods and payable quarterly in arrears. |
| APAX | The management fee is calculated in arrears at a rate of 1.25% per annum on the fair value of Derived Investments and non-fee paying PE Investments which do not already pay a management fee and/or an advisory fee to the Investment Manager or Investment Adviser. |
| HGT | HGT has a range of priority profit shares including Hg Saturn (1.0% on invested capital),Transition Capital (1.25% on invested capital), Hg8 (1.75% on the fund commitment during the investment period (commenced 1 October 2017), stepping down to 1.5% on invested capital), Hg Mercury 2 (1.75% on the fund commitment during the investment period (commenced 1 October 2017), stepping down to 1.5% on invested capital). A number are based off original cost of investments in the fund less the original cost of investments that have been realised or written-off, including, Hg7 (1.5%). HgCapital Mercury D LP (1.5%), Hg6 and Hg6E (1.5%) and Asper RPP I (1.5%), HGT 0.5% on the value of investments held in that fund, excluding co-investments. Asper RPP II 1.25% of lesser of value or cost of investments. |
| MERI | The monthly management fee is equal to 1/12 of 0.5 percent of the Net Asset Value (the "management fee"). The management fee is calculated and paid monthly in arrears. There were special arrangements for the fee to limit its impact when the company launched. |
| NBPE | The Group is managed by the Investment Manager for a management fee calculated at the end of each calendar quarter equal to 37.5 basis points (150 basis points per annum) of the NAV of the PE and opportunistic investments. For purposes of this computation, the NAV is reduced by the NAV of any investment for which the Investment Manager is separately compensated for investment management services. The Investment Manager is not entitled to a management fee on: (i) the value of any fund investments held by the Company in NB Funds in respect of which the Investment Manager or an affiliate receives a fee or other remuneration; or (ii) the value of any holdings in cash and short-term investments (the definition of which shall be determined in good faith by the Investment Manager, and shall include holdings in money market funds (whether managed by the Investment Manager, an affiliate of the Investment Manager or a third party manager)). |
| PEY | Under the Investment Management Agreement ("IMA") between the Company and Investment Manager the Company pays, in arrears, to the Investment Manager quarterly management fees. The quarterly management fees are calculated as 0.375% of the higher of the sum of Private Equity Net Assets which is the higher of (i) the net asset value of the Company and (ii) the value of the assets less any temporary investments of the Company, plus the amount of the unfunded commitment of the Company or the Net Assets of the Group at the end of the quarter. |

*Source: OCI Report and Accounts, Hardman and Co Research*

| Performance fee | Comment |
|---|---|
| OCI | The Administrative Agent receives a performance fee of 20% of the excess of any proceeds from the full or partial realisation on disposal of each of the Company's direct investments after the deduction of: a) the original cost of the direct investment and b) the attributable proportion of all expenses incurred by the Company. In the funds the performance fee is 20% of all the gain assuming the hurdle rate is hit. |
| APAX | A performance fee is payable on an annual basis once realised gains on the Derived Investments and non-fee paying PE Investments exceed the prescribed benchmark of 8% internal rate of return. Performance fees are only payable to the extent they do not dilute the returns below the 8% benchmark. They are calculated at 20% on total realised gains. Where there are overall net realised losses in a period these are carried forward and netted against future performance fees that may become payable. The performance fee is payable to the Investment Manager by way of ordinary shares of the Company. |
| HGT | For the Company's investment alongside the Hg6, Hg Mercury 1, Hg7, Hg Mercury 2 and Hg8 funds, the carried interest arrangements are identical to that which applies to all limited partners in these funds. Under these arrangements, carried interest is payable based on 20% of the aggregate profits, but only after the repayment to the Company of its invested capital and a preferred return, based on 8% p.a., calculated daily, on the aggregate of its net cumulative cash flows in each fund and such preferred return amount that is capitalised annually. Carried interest in HGT Transition Capital will be calculated in the same way.<br>For the Company's investment alongside the Hg Saturn fund, the carried interest arrangement is also identical to that which applies to all Limited Partners in this fund. Under this arrangement, carried interest is payable based on 12% of the aggregate profits, payable after the repayment to the Company of its invested capital and a preferred return based on 8% p.a. or 20% of the aggregate profits, payable after the repayment to the Company of its invested capital and a preferred return of 12% p.a. |
| MERI | MGI will be entitled to receive a performance fee, the sum of which is equal to 20% of the amount by which the Adjusted Net Asset Value at the end of a Calculation Period exceeds the higher of: (i) the Performance Hurdle (8%); and (ii) the High Water Mark ("the performance fee"). |
| NBPE | The Special Limited Partner is entitled to a carried interest in an amount that is, in general, equal to 7.5% of the Group's consolidated net increase in net assets resulting from operations, adjusted by withdrawals, distributions and capital contributions, for a fiscal year in the event that the Group's internal rate of return for such period, based on the NAV, exceeds 7.5%. |
| PEY | Distributions of cash proceeds derived from each secondary investment are distributed to the Company or due to the Investment Manager as Incentive Fees in the following order of priority: (i) The Company shall receive distributions equal to its aggregate secondary investment contributions in respect of the relevant secondary investment plus an amount (the "Preferred Return") calculated at the rate of 8% per annum compounded annually on their contributions and distributions derived from the relevant secondary investment. (ii) Thereafter the Investment Manager shall receive Incentive Fees until such time as the Investment Manager has received 10% of the sum of the distributed Preferred Returns and the Incentive Fees made under this clause. (iii) Thereafter, 90% shall be distributed to the Company and 10% shall be allocated to the Investment Manager as additional Incentive Fees. |

*Source: OCI Report and Accounts, Hardman and Co Research*

# Appendix 6: typical process for fund investment

The following outlines the process undertaken by Oakley, the Investment Adviser:

## *Deal sourcing and origination*

- Sourcing is through the Oakley network, as well as the team's network in the market. These relationships are carefully cultivated to deliver differentiated deal flow, limiting Oakley's reliance on intermediaries and auctions.
- Sector-based origination has been successful in identifying attractive markets and targets within them. The team will perform detailed analysis and discuss with the wider team. Seagull was, for example, identified via sector mapping.
- Oakley's reputation for delivering on complex situations has meant it has been sought out by advisors looking for an experienced investor for specific situations.
- Deal flow is monitored and reviewed at Oakley's weekly team meetings

## *Deal execution*

- New opportunities and preliminary deal screening – a deal team is formed, and the initial deal screen is undertaken, which includes the preparation of a one-page summary outlining the opportunity. This is discussed at the team meeting to assess initial appetite and share the wider team's knowledge and contacts.
- Concept approval and offer letter – based on the deal team's assessment of the valuation and return profile, the Investment Committee (IC) will decide whether to proceed
- Due diligence – an initial investment proposal is submitted to the IC, identifying the basis on which the investment is deemed suitable and attractive, including risk factors. The IC will determine whether to commit further resources and initiate third-party due diligence on a transaction. Third-party due diligence will typically be contracted to industry specialists. In addition, external advisers are appointed to analyse the company's operations, finances, management, industry and market sector. The deal team will spend a significant amount of time meeting and reviewing the target's senior management team. The transaction team will build upon its initial investment proposal to create an Investment Memorandum ("IM"), setting out a comprehensive investment case behind the transaction and addressing any material due diligence issues that arise from the due diligence work. This is circulated to the wider team for discussion

## *Investment approval*

- The IC will then decide collectively whether to make a recommendation of the investment to the manager. Decision-making is unanimous, so all IC members must support the transaction. The transaction team prepares a formal investment recommendation for the IC to the manager of the relevant fund, including a copy of the finalised IM. Oakley will then seek the approval of the manager to complete the transaction. The final investment decision will be taken by the manager, having considered the IC's reports. The manager will supervise the investment process and will have the ultimate responsibility for all decisions relating to the fund and the final agreement of any transaction.

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research@hardmanandco.com

35 New Broad Street
London
EC2M 1NH

+44(0)20 7194 7622

www.hardmanandco.com