



Jim Strang
Chairman, HgT

“ HgT delivered another solid performance over the first six months of the year, successfully navigating challenging private market conditions. The portfolio continued to experience strong underlying trading performance over the period with sales and EBITDA across the top 20 investments (78% of the portfolio) growing at 19% and 26% respectively. Investment activity in businesses continued at a pace both in the first half and post-period in order to generate good future returns to shareholders. These positive fundamentals supported a near 13% increase in share price over the period and a halving of the discount to 7%. ”

Chairman's statement

The first half of 2024 has been one of continued good progress for HgT, maintaining the momentum reported in the Q1 results and the annual results for 2023. The deal markets for private equity transactions continue to gradually improve, aided by improving investor confidence and more accommodative conditions in credit markets. As I noted in the full-year results announcement, the kind of high-quality software assets that make up the majority of the HgT portfolio continue to be viewed as some of the most attractive areas to invest across private markets and to transact at significant multiples.

The portfolio, which numbered 50 businesses at 30 June, has continued to trade well over the last six months, reflecting the characteristics of the types of companies targeted for investment by the Manager ('Hg'). Hg continues to refine and enhance its in-house value creation capability, notably around the important topic of Artificial Intelligence, and in growing the strength of the investment team globally. Given the discipline and rigour of the investment approach and the health of both the portfolio and the HgT balance sheet, the Board maintains its positive outlook going forward.

Highlights to 30 June 2024 included:

- 12.7% total share price return
- 6.4% NAV per share growth on a total return basis, with net assets of £2.4 billion
- Discount narrowed from 13% to 7%
- LTM revenue and EBITDA growth of 19% and 26% for the top 20 companies (78% of the portfolio)
- Investments of £310 million and gross realisations of £348 million
- £566 million of liquid resources available, including an undrawn banking facility of £375 million
- £912 million of outstanding commitments across the Hg fund platform to be invested over the next three to four years

Performance

The NAV of HgT increased by 6.4% on a total return basis over the first half of 2024, reflecting the ongoing strength of the operating performance of the HgT portfolio. HgT's share price saw a total return of 32.8% over the last 12 months, with 12.7% over H1 2024. On a long-term basis, HgT has seen a CAGR on a total return basis of 16.6% p.a. over the past 20 years, outperforming the FTSE All Share index by 9.3% p.a. over the same period.

The total net assets of HgT at 30 June 2024 were £2.4 billion, an increase of c.£126 million over the reported figures at 31 December 2023. An analysis of NAV movements and movement within the underlying portfolio is set out on pages 29 and 30 of this report.

At the end of June 2024, the HgT portfolio consisted of 50 investments, all of which sit within the Hg sector focus and investment strategy, targeting mission-critical software and services businesses. These assets have continued to perform well in aggregate and in line with the portfolio growth seen in recent years. The top 20 underlying companies (78% of the portfolio) continued to deliver double-digit revenue growth over the last 12 months of 19% (June 2023: 29%) and EBITDA growth of 26%

Past performance is not a reliable indicator of future results. The value of shares and the income from them can go down as well as up as a result of market and currency fluctuations and investors may not get back the amount they originally invested.

(June 2023: 30%), reflecting the defensive-growth nature of the businesses in which HgT is invested. The portfolio continues to generate strong top-line growth and solid profitability, with the top 20 companies reporting an average EBITDA margin of 34%. Currently, 95% of the portfolio by value is held above its original cost of acquisition, a testament to the asset selection and value creation skills of the Manager.

These businesses typically exhibit highly predictable forward cash flows and are appropriately financed, including significant covenant flexibility around their financial structures. The top 20 investments have seen a weighted average net debt to EBITDA ratio of 7.4x (December 2023: 7.4x), which is consistent with the highly recurring revenues of the businesses that make up the Hg portfolio and is typical for large, high quality software assets in general. Given the average valuation multiple for the top 20 portfolio companies is 25.9x EV-to-EBITDA (December 2023: 26.1x), this implies that debt accounts for less than 30% of the portfolio company capital structures. This allows a significant equity cushion within the portfolio reflecting the Manager's prudent approach to leveraging and consistent with similar peer companies in the market. Hg has a dedicated capital markets team which continually monitors and manages the capital structures of the underlying portfolio companies to ensure they are as robust and flexible as possible in terms of tenor, interest cost and time to maturity.

As I have noted in the past, HgT aims to achieve long-term growth in the net asset value per share and in the share price, rather than to deliver a specific dividend yield. As regards the current financial year, HgT will pay an interim dividend of 2.0 pence per share (2023: 2.0 pence per share), payable in October.

“ Realisation activity over the first half of 2024 and post-period saw HgT generate material cash proceeds from exits at prices in excess of the carrying value of investments. These sale proceeds will be reinvested into businesses which continue to align with the well proven Hg investment model. With a performing portfolio, an attractive deal pipeline and a well capitalised balance sheet, HgT remains well positioned for second half of the year. ”

Investments and realisations

In order to grow the NAV of the portfolio, and to deliver returns for shareholders, HgT operates in a continual cycle of commitments, investments and realisations. Investment activity was robust over the first half of the year, with a total of £310 million of new and further capital deployed within the first six months of the year, including Visma, IRIS, GGW, CUBE, CINC and Induver. Follow-on investments to finance bolt-on M&A is an area which the Manager has highlighted as particularly attractive in the current environment and where the sector-leading businesses across the portfolio can further improve their market positions, product and service offering. Further investments announced both in the period and post 30 June included AuditBoard, Focus Group, CTAIMA and e-coordina and more recently Ncontracts. On completion, these transactions will represent c.£183 million of further investment by HgT.

The Board expects to see further co-investment activity (free of management fees and carried interest), over the next twelve months. HgT currently has 7% of net assets in co-investment and aims to grow this to 10-15% of NAV over the next few years in line with stated policy. Increasing allocation to co-investments allows HgT to more fully utilise its available liquid resources, to improve returns and to reduce the overall fee load for shareholders.

As I have noted in previous reports, the Hg investment model is based around supporting portfolio companies

to achieve their full potential and in creating larger, more valuable and attractive businesses. As a result of this work, these are much sought after businesses in the markets in which they operate. Consequently, despite the challenging market conditions, Hg was able to deliver a number of liquidity events over the last year, which included the full and partial exits of, IRIS, GGW, Argus and Visma. In total, realisations returned £308 million to HgT.

Post-period, HgT estimates proceeds of £75 million to be returned from the realisations of F24, TeamSystem and team.blue. Over the past 10 years, full and partial realisations in software and services, including all announced transactions at the point of this report have generated an average uplift of 35% to the latest carrying value at signing. Valuations remain an area of continued focus for the HgT Audit Valuation and Risk Committee ('AVRC'), with the long term record of continued exit above recent holding values providing comfort.

Realisation activity continues to set Hg apart as the industry continues to find generating liquidity events challenging, highlighting the fundamental strengths and attractiveness of the underlying portfolio to both trade and financial buyers. Hg believes its exit activity, with more than 40 liquidity events since the start of 2022 has been a clear differentiator, highlighting the fundamental strengths and attractiveness of the underlying portfolio to both trade and financial buyers.

Please refer to pages 35 to 38 for further information on portfolio transaction activity.

Capital Allocation

As part of the Board of HgT's commitment to shareholders, our primary objective is to maximise investment returns through a disciplined approach to the allocation of available liquid resources. This incorporates the continual monitoring by the Board, working with the Manager, of forecast cash flows and estimated returns. As I have stated in past reports, the Board continually seeks ways to improve the effectiveness of governance. As part of this process, much attention has been devoted, and shareholder feedback garnered, on the topic of capital allocation. The approach, framework and tools adopted are set out below.

Investments

At the core of the capital allocation policy is the imperative to continue to drive compelling investment returns for shareholders. As you will be aware, HgT has delivered very strong shareholder returns to investors over a period of more than two decades, a fact recently highlighted by the AIC.

The Board seeks to maintain this long-term record by continuing to access the repeatable returns delivered by the Hg investment platform since inception. HgT's commitments to Hg funds ensure that HgT maintains exposure to Hg's deal flow, which is the single biggest driver of investment opportunities with the potential to generate long-term returns. As such, the first priority of the Board is to ensure that HgT is positioned to access these returns to the fullest extent possible, at acceptable levels of risk. This includes co-investment opportunities (free of management fees and carried interest), as previously mentioned, in what is anticipated to be an attractive investment environment.

Buybacks

From time to time, market conditions can create divergence between the share price of HgT and its stated net asset value. The Board, the Manager and HgT's broker monitor such divergence closely, following a clearly defined share buyback policy. The Board has developed a process with a number

of 'triggers' set by absolute and relative level of share price discount over various time periods. Where two or more such 'triggers' are activated, the Board is informed and a decision is taken as to whether to allocate resources to buying back shares. Any such buybacks are viewed with suitable caution, reflecting the relative merits of any immediate gain with the considerable impact that utilising current cash has on long term NAV growth.

Dividends

With regard to the level of dividend payments, as I have stated in the past, HgT's ability to pay dividends is increasingly driven by the levels of income that are generated by the Hg portfolio. This is a somewhat unpredictable exercise from one year to the next and thus the view of the Board is to establish what it considers a reasonable basis for a 'floor' for the annual dividend level which is currently set at 5 pence per share. Should circumstances change, I will of course communicate with shareholders at the appropriate time.

Debt facility

The final element of the capital allocation policy relates to the use of leverage. HgT uses a Revolving Credit Facility of £375 million at the end of June 2024, to support the implementation of the investment strategy.

Balance sheet

A key role of the Board is continually to balance considerations of HgT's future commitments to Hg funds, balance sheet and cash position, while maintaining a clear focus on risk. This is a continuous cycle of activity which has to adapt to unpredictable events. In the last year, HgT has invested in upgrading the tools used to manage this process, aligning them with similar tools that Hg, the Manager, uses to manage its own investment activity. As a result, the Board benefits from being able to assess the various scenarios with a greater degree of granularity which should benefit the quality of decision making.

As one of the tools used to manage the balance sheet, HgT has a revolving credit facility to support the investment programme and to improve balance sheet efficiency. In 2024, HgT increased its facility to £375 million, being c.15% of NAV, consistent with the historical sizing of this facility. This will aid HgT's future cash flow management.

HgT continues to benefit from a unique opt out clause within its underlying investment agreements with Hg (please refer to business model on page 14 for further detail), which provides a useful risk management tool for the Board in managing and optimising the HgT balance sheet.

Impact and responsible investment

Your Board and the Manager, Hg, continue to increase their focus on the topics of ESG and sustainability. We share a firmly held view that not only should the financial returns to you, the shareholders, be attractive, but these must be delivered in a manner which is consistent with our responsibility to society. As a technology investor, we understand the need to ensure that those businesses in which we invest reduce their carbon footprint and contribute to tackling climate change.

The UN Principles for Responsible Investment (UNPRI) assessment of Hg's approach to responsible investment is 4* (82/100) for Investment Stewardship Policy and 5* (100/100) for Private Equity, and the Board of HgT meets regularly with the Hg Responsible Investment team to ensure that Hg's work is well understood and endorsed by the Board. As we have previously reported, Hg launched The Hg Foundation in 2020 – a charitable initiative to provide funding and operational support to initiatives across Europe, the UK and the US. The Hg Foundation's goal is to have an impact on the development of those skills and learning most required for employment within the technology industry, focusing on individuals who might otherwise experience barriers to access this education. This Foundation is funded by the Hg management company and its team members.

Reporting and Transparency

As mentioned in the 2023 Annual Report, the Board continues to look at ways to increase the effectiveness of communications for shareholders.

In the case of improving transparency, shareholders will know that we are now providing preliminary trading updates, which provide our shareholders with earlier guidance on the performance of HgT ahead of the full year and interim results, after approval by the HgT Audit Valuation and Risk Committee ('AVRC') and the HgT Board.

Over the past six months, you will have also seen a greater focus on improving our website, our reporting materials and our public engagement through enhanced social media activity. Additionally, the capital

markets day in June saw record numbers of attendees and it was received very positively. These initiatives seek to build good quality and open communication with our stakeholders.

As we have stated before, this continued development in communications has also seen HgT engage with third party marketing specialists to increase the scope and span of brand marketing activities for HgT in the UK and overseas, where regulations permit.

Board and governance

As I noted in March, Anne West retired from the Board at the AGM in May 2024, after ten years of service. On behalf of myself and my fellow Directors, and as previously stated, I would like to thank Anne for her important contribution to HgT throughout her time on the Board. Following Anne's departure, Erika Schraner has been appointed Senior Independent Director and Helena Coles has taken on the role of Chair of the Management Engagement Committee.

In late 2023 we commenced the process to find a new Non-Executive Director and an external search firm was engaged to support the Nomination Committee and the Board in delivering a successful outcome to this process, noting the skills and experience which would be most additive to HgT.

We were pleased to announce in May the appointment of John Billowits to the Board. John has over 25 years of operational experience and a wealth of investment expertise in the software sector, and brings valuable international perspective, through his past roles and current appointments on Boards of US, Canadian and European software companies. As past CFO and CEO, and as a Chartered Accountant, John has significant depth of financial knowledge and experience.

John is a highly regarded investor and operator in the software sector and brings a unique combination

of skills and personal strengths that are highly complementary to HgT and we are delighted he has chosen to join the Board.

Prospects

Following on from the resilient performance over 2023, HgT has continued to see positive returns over the first half of 2024, including share price appreciation, with the underlying portfolio continuing to deliver strong growth. Investment activity has accelerated over the period, as conditions improved from 2023 and as the industry looked favourably on the kinds of high-quality assets that make up the HgT portfolio.

The significant liquidity generated year-to-date, not only validates the valuation of the assets in the portfolio, but further strengthens the balance sheet to be able to capitalise on future opportunities as they present themselves. With its defensive portfolio of companies and prudent management of the balance sheet, HgT is well positioned to take advantage of investment opportunities as they arise, and the Board remains positive for both transaction activity and portfolio performance in the year ahead.

Jim Strang

Chairman
13 September 2024