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This tech trust has a raft of recession-proof picks to ride out the turmoil in global markets

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TRUST BARGAINS

Firms are unlikely to cut spending on mission-critical services such as accounting, payroll or compliance

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TECHNOLOGY investing can be a roller-coaster ride, as reflected by the performance of the Nasdaq in recent years. The US tech index slumped 33pc in 2022, then surged 85pc during 2023-2024 on the back of AI mania, but has since fallen 15pc this year because of rising global protectionism.

However, not all tech stocks have the same risk profile, as evidenced by HgCapital Trust, a London-listed fund of unquoted software businesses. The trust has delivered consistent net asset value (Nav) growth over the past decade, averaging 18.1pc per annum, resulting in asset growth from £500m to £2.5bn.

The secret to HgCapital's success is a focus on profitable, growing companies that supply mission-critical services to a diverse range of businesses, typically through cloud-based software.

The trust invests via commitments to unquoted private equity funds run by Hg, one of the world's leading technology investors with assets under management of £75bn and more than 250 investment professionals. Hg was not always a specialist technology investor, but over the past 10-15 years its focus has narrowed, and now more than 70pc of HgCapital's portfolio is invested in three niches: tax and accounting; ERP and payroll; and legal and regulatory compliance. It also holds investments in Fintech, Insurance and Healthcare IT.

While becoming more specialist by sector, Hg has broadened its geographic focus from the Britain and northern Europe to North America. The trust's portfolio is currently held 32pc in UK-based companies, 28pc in firms based in North America, 20pc in Scandinavian businesses and 20pc spread elsewhere through Europe.

Hg has also broadened the size range of companies in which it invests, backing businesses valued from £100m to several billion pounds. This has enabled the trust to maintain exposure to highly successful investments over the long term while realising profits along the way. For instance, it has been invested in Visma (12.8pc net assets) since 2006, IRIS (3.2pc) since 2011 and P&I (3.6pc) since 2013.

HgCapital was trading close to Nav at the start of 2025, but the share price has fallen 9.2pc to 487.5p as a result of the turmoil in global markets. This represents a discount of 10.6pc to the last published quarterly Nav of 545.5p on Dec 31. Questor regards this correction as a buying opportunity for long term investors.

The trust's portfolio is in good health, with the top 20 investments (76pc by value) achieving growth of 19pc in revenues and 23pc in earnings during last year.

Of course, there is considerable uncertainty over the impact of US tariffs, but for now the direct impact on Hg's portfolio is limited as tariffs do not currently apply on software licenses or cross-border services. In addition, Donald Trump's about-turn on tariffs applied to hardware imports may ease expected pressure on IT budgets in the US. Even so, delays in purchasing decisions as a result of weak business confidence could still hit software spending.

Another symptom of uncertainty will be a slowdown in merger and acquisitions (M&A) activity. The IPO market has slammed shut, but Hg does not rely on IPOs for exits, as it principally sells its companies to corporate buyers or larger private equity firms. Hg is not a forced seller and can wait until there is greater clarity on the economic outlook.

Hg does not seek to buy cheap companies and the trust's portfolio is valued on a multiple of 26.1x enterprise value/Ebitda, which is far higher than other listed private equity funds. This reflects the portfolio's high margins and superior growth characteristics, as well as the positive outlook for software-as-a-service.

Crucially, the trust has a long history of exiting companies at an uplift to carrying value, averaging 15pc in 2024.

HgCapital's focus is on capital growth, but it currently pays a dividend of 5.5p, equivalent to a yield of 1.1pc. Ongoing charges are 1.4pc (excluding performance fees and financing), and its impressive Nav record is net of all fees and charges. The fees charged by Hg's funds are typically 1-1.75pc of committed capital, plus 20pc of returns subject to achieving 8pc per annum realised return. However, the trust also makes co-investments alongside Hg funds that are fee-free, and these currently represent 9pc of its portfolio.

Questor says: Buy
Ticker: HGT
Share price: 487.5p

Charles Cade has more than two decades' experience in investment company research

HgCapital

BUY

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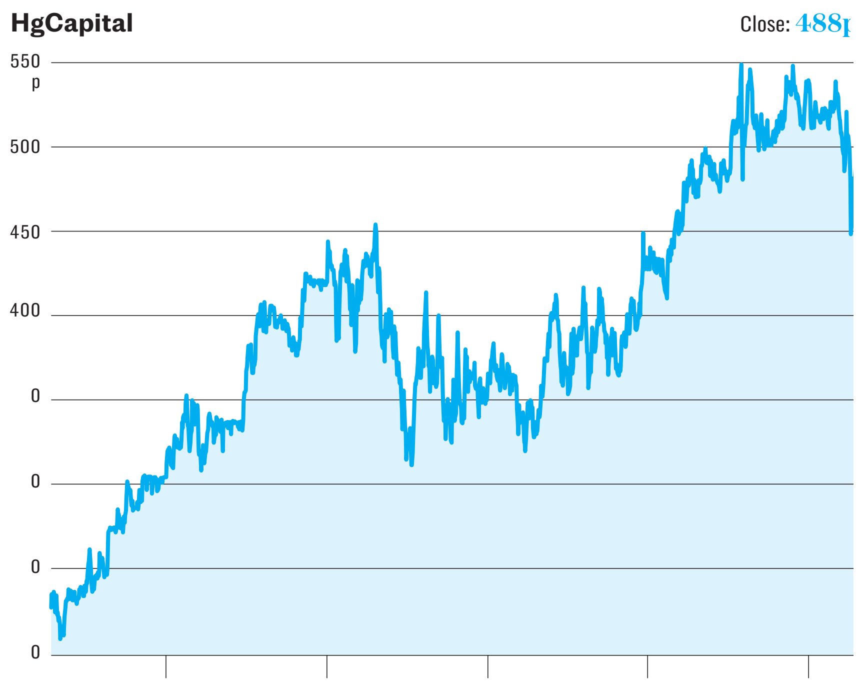
'Hg is not a forced seller and can wait until there is greater clarity on the economic outlook'



Key numbers

- Market value: £2.2bn
- Year of listing: 1989
- Discount: 10.2pc
- Average discount over past year: 3.6pc
- Yield: 1.1pc
- Most recent year's dividend: 5.5p
- Gearing: 0pc
- Annual charge: 1.4pc