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Markets Business

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Buy, sell or hold: today's best share tips

Trust taps into hard-to-reach tech

HGT CAPITAL TRUST

Market cap	Premium to NAV
£2.4 billion	1.7 per cent

Most private equity investment trusts have been languishing at double-digit discounts for the best part of two years. But shares in the HgCapital Trust have finally caught up with their net asset value, and now even trade at a small premium.

The £2.4 billion fund, also known as HgT, specialises in technology businesses that cannot be found on the public market. These are not the exciting high-growth companies that other tech-focused funds often favour, but the more pedestrian B2B software that businesses need to run their daily operations.

The central idea at HgT is that, as the population ages, there is a growing opportunity for the automation of workplace processes. A more expensive workforce means businesses will increasingly turn to software to become more efficient.

HgT's single biggest investment is in Visma, a tax and accounting software provider for small to medium sized businesses in northern Europe. The Norwegian business makes up 12 per cent of its portfolio, with the fund's stake valued at £347 million at the end of September. This was followed by Access Group, another business management software company which focuses on UK mid-market organisations. This makes up 10 per cent of its portfolio, at £293 million.

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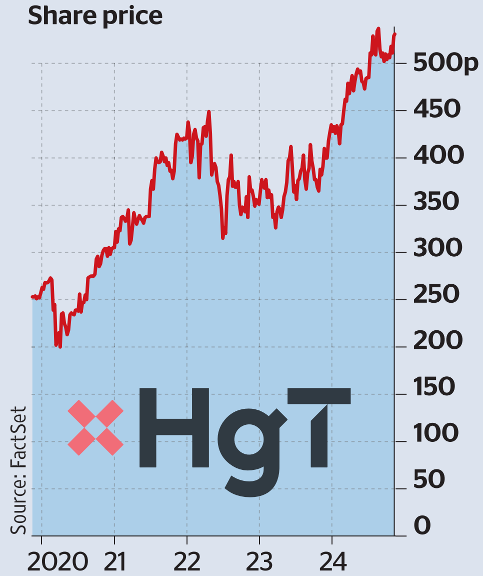

Top ten holdings
Portfolio value

Holding	Portfolio value
Visma	12.1%
Access	10.2%
Howden	5.6%
IFS	4.7%
Septeo	4.3%
Litera	4.2%
Auditboard	3.8%
P&I	3.4%
Ideagen	3.4%
team.blue	3.3%

As of September 30

ADVICE Buy
WHY Route to investment in private, high—quality European technology firms

Around a third of the portfolio is in tax and accounting technology, followed by 21 per cent in enterprise resource planning and payroll, 19 per cent in legal and regulatory compliance. The rest of HgT's investments are spread across insurance, fintech, technology services, healthcare IT and automation and engineering. Crucially, most of these companies follow a software-as-a-service or "SaaS" model, which means their revenues are subscription-based, recurring and have very low customer churn.

The tech investing "Rule of 40" applies to much of the portfolio too, which is the idea that high-quality SaaS business should have a revenue growth rate and profit margin that together add up to 40. At HgT, there is a 12 per cent organic revenue growth rate and a 34 per cent adjusted cash profit margin for its top 20 investments, which together account for three quarters of the portfolio.

The fund's most recent update showed its net asset value in the third quarter slipped 0.9 per cent, though that was mostly due to currency movements. Its underlying portfolio performed well: at its top 20 holdings, sales growth in the previous 12 months averaged 20 per cent, and adjusted cash profits at 24 per cent.

A common worry with private equity funds is there could be a dangerous lag between the valuation of the holdings compared with their listed rivals. So far the evidence suggests HgT has taken a reasonable approach. In its 2023 financial year it recorded £324 million worth in realisations, at an average uplift of 25 per cent to the book value as of the end of 2022.

As of the end of September this year, realisations are even higher, at £349 million, representing 14 per cent of the fund's opening portfolio value, and at an average uplift of 16 per cent to carrying value.

Given the activity in the fund, it is perhaps not surprising the shares have rallied considerably in the past year, up by just under 40 per cent. As such HgT is now one of the few private equity investment trusts trading at a premium to its net asset value. It is relatively small, at just 1.7 per cent, but it is in stark contrast with an average discount of 33 per cent in the sector, excluding 3i.

Its longer term record is decent, having delivered a share price return of 20 per cent in the five years ended in September, comfortably ahead of its benchmark, the FTSE All-Share index, up by 6 per cent in the same period. For a fund providing a meaningful route to diversification outside of the main stock market, but with a rigorous, quality-focused approach to picking companies, HgCapital looks a strong pick.