

HgCapital Trust can add growth and value to your portfolio

Private equity investor has a proven track record over the last decade

HgCapital Trust
(HGT) 458.8p

BUY

Market cap: £2.1 billion

While it may not be as well known as FTSE 100 private equity firm **3i (III)**, specialist software and services investment trust **HgCapital (HGT)** has an equally impressive track record.

Total share-price returns over the last decade are 18.8% per year, slightly ahead of the FTSE 100 giant which has posted 18% compound annual growth, while 2023 saw it generate a 26.2% return.

Whereas the bulk of 3i's performance comes from a single holding, which makes up over half the value of its portfolio, HgCapital has a spread of around 50 unquoted investments across the software and service sector with the top 20 making up roughly 75% of total assets by value.

The managers pick businesses with strong fundamentals and predictable cash flows, as demonstrated by the top 20 companies growing their sales and EBITDA (earnings before interest, tax, depreciation and amortisation) by 25% and 30% respectively last year.

In terms of numbers, the same top 20 holdings generated revenue of £10.6 billion and EBITDA of £3.3 billion in 2023, representing a 31% EBITDA margin.

Investee businesses provide software and services ranging from tax, accounting and payrolls to factory automation, fintech, insurance, healthcare and crisis and incident management. This side of tech may not be as racy as AI or the metaverse but it is absolutely crucial to the day-to-day running of modern businesses.

2023 was very much 'a year of two halves, with the challenging market conditions of 2022 in evidence through the first half', says chairman Jim Strang.

The situation improved in the second half, once it became clear interest rate rises had run their



Hg Capital

(p)



Chart: Shares magazine • Source: LSEG

course, which allowed markets to stabilise and financing conditions to become more supportive for deals, 'especially for the kinds of high-quality assets with attractive market positions and growth profiles that constitute our portfolio,' adds Strang.

NAV (net asset value) per share rose 11% to 500.5p while the strong share price performance meant the discount to NAV narrowed from 23% to 13% at year-end.

Despite a slow first half the team completed £74 million of new investment, with a further £148 million of deals signed pending completion this year, while realisations came to £324 million with an average uplift of 25% to their December 2022 carrying value and there were a further £191 million of sales signed due to complete this year.

The trust carries a relatively high ongoing charge of 1.69%, which is slightly more than the dividend yield, but we believe it is justified by the trust's ability to continue delivering double-digit shareholder returns even in tough markets. [IC]

SHARES

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