



GRAPHITE ENTERPRISE

Listed private equity

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Winterflood Investment Companies Conference

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1. Introduction

1. Introduction

Graphite Enterprise is one of the longest established private equity companies

- Listed on the London Stock Exchange in 1981
 - £23 million raised in total
 - Investments exclusively in private equity
 - Managed by Graphite Capital throughout its life

- Net assets of £411 million at 31 October 2011
 - Investments primarily in European buy-outs
 - Diversified: the top 30 make up 40% of the portfolio
 - Balance sheet managed conservatively

- Hybrid funds of funds / direct investment model
 - UK mid-market through Graphite Capital's own buy-out funds (20-25% of the portfolio)
 - Other sectors / geographies through 3rd party funds and co-investments (75-80%)



1. Introduction

Graphite Capital is the Manager of Graphite Enterprise

- A leading UK mid-market private equity firm with £1.2 billion assets under management
 - Direct investments in UK mid-market – more than £800 million
 - Fund investments and co-investments – more than £400 million
 - Graphite Enterprise is sole fund of funds client

- Independently owned and based in a single London office
 - Team of 20 investment executives and 19 support staff
 - Senior team with average of 20 years' private equity experience

- Making direct investments in the UK since inception
 - Realised investments have generated an annualised return of over 35% since 1991

- Making third party fund investments since 1989
 - Realised funds and co-investments have generated 2.0 times cost since 1989



2. The private equity model

2. The PE model

Private equity has an attractive operating model (1/2)

Interests are aligned

- Investors' interests are closely aligned with PE managers and portfolio managers
- PE managers receive a share of gains if hurdle return rates are achieved
- Company management teams invest in the equity of their companies

Owners and managers work closely together

- PE managers take very active roles in the running of their portfolio companies
- Investment objectives are made clear at the outset
- Decision making is fast and efficient – finance can be raised quickly
- Underperforming company management teams can be changed quickly

Managers have long term incentives

- Management teams have significant equity stakes in their businesses
- Rewards for good performance are often greater than for public companies
- PE backed companies can attract very high quality management teams as a result
- Incentives are long term rather than short term



2. The PE model

Private equity has an attractive operating model (2/2)

Decision making is long term

- PE owned companies have significantly fewer disclosure requirements
- Decisions can be based on business fundamentals rather than PR concerns
- Long term plans can be agreed which involve short term reductions in profitability

Investors have sector expertise

- Successful PE managers develop in-depth knowledge of their industry sectors
- This helps them to identify attractive targets and to develop growth strategies
- Due diligence performed before an investment is made is extremely comprehensive
- Consultants and industry contacts are brought in to enhance performance

Leverage enhances returns

- The ownership structure increases lender confidence
- Leverage is often higher than in an equivalent public company



KURT GEIGER



2. The PE model

PE-backed companies can make good returns in a hostile environment

Case study – Kurt Geiger

KURT GEIGER

- A leading UK-based retailer of luxury footwear and accessories
- Acquired by Graphite Capital in a £95 million secondary buy-out in February 2008

Developments under Graphite Capital ownership

- Footwear space was greatly increased in Harrods and Selfridges
- 24 stand-alone stores were opened in the UK
- A design and manufacturing agreement was signed with French Connection
- Stores were opened in Dubai, Kuwait, Qatar & Bahrain, franchises agreed in Russia & Turkey
- A new three year growth plan was finalised

Exit

- Turnover increased by 70% to £205 million and EBITDA more than doubled
- In May 2011 the business was sold to a US trade buyer for £215 million
- This represented a multiple of 2.6 times cost and an uplift of 73% over the previous valuation



3. Funds of funds

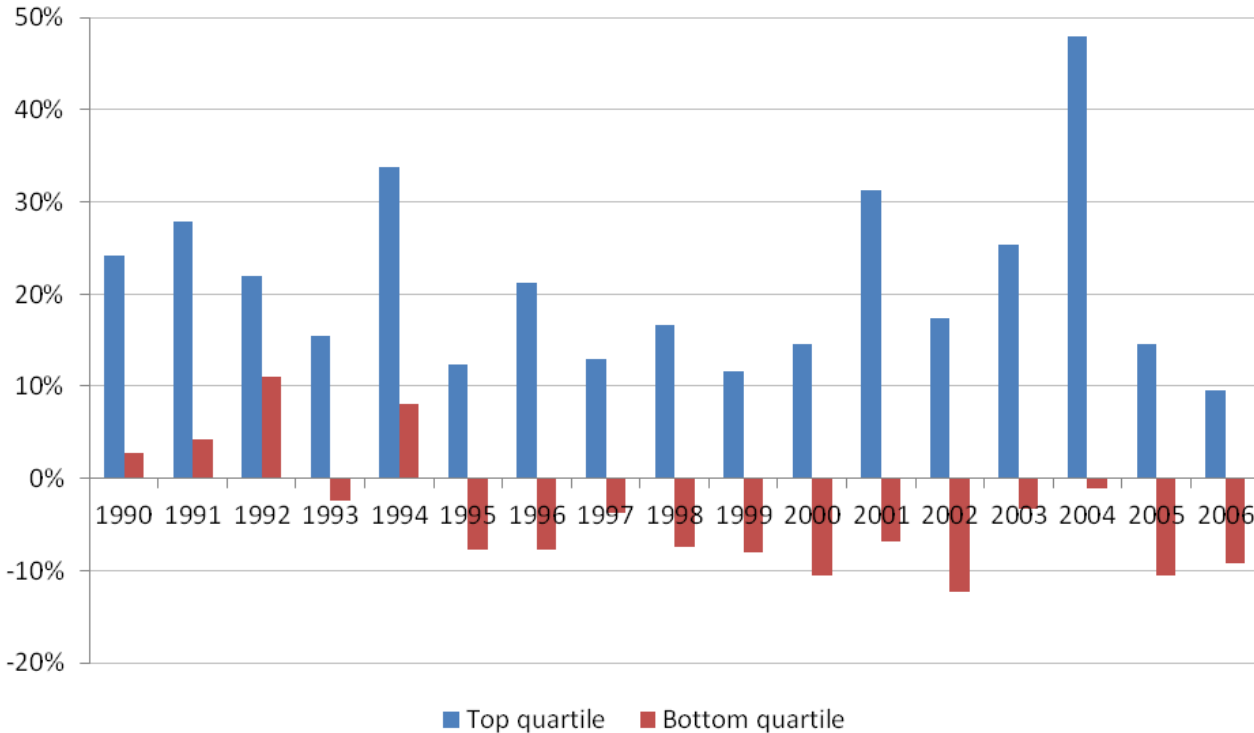
3. Funds of funds

How does a private equity fund work?

- Institutional investors commit to funds at the outset – typically for ten years
- PE managers identify, buy, manage and sell companies to generate returns
- Traditional funds typically have a five year investment period
- Cash is only drawn from investors as investments are made in portfolio companies
- Cash is returned to investors as investments are realised
- Minimum commitment levels are often €5-10 million
- High quality funds are frequently over-subscribed

3. Funds of funds

Good private equity managers generate strong returns in any environment



25th and 75th percentile net returns for UK PE funds, by year in which the fund was raised

3. Funds of funds

Manager selection is the key determinant of performance

- Fund of funds managers are in the strongest position to select the best managers

- Significant due diligence is performed prior to investment:
 - Realised track record
 - Unrealised portfolio
 - Management team
 - Strategy and market
 - Investment process
 - Legal documents

- Fund of funds managers are more likely to get access to the best managers:
 - Scale of their operations
 - Network of industry contacts

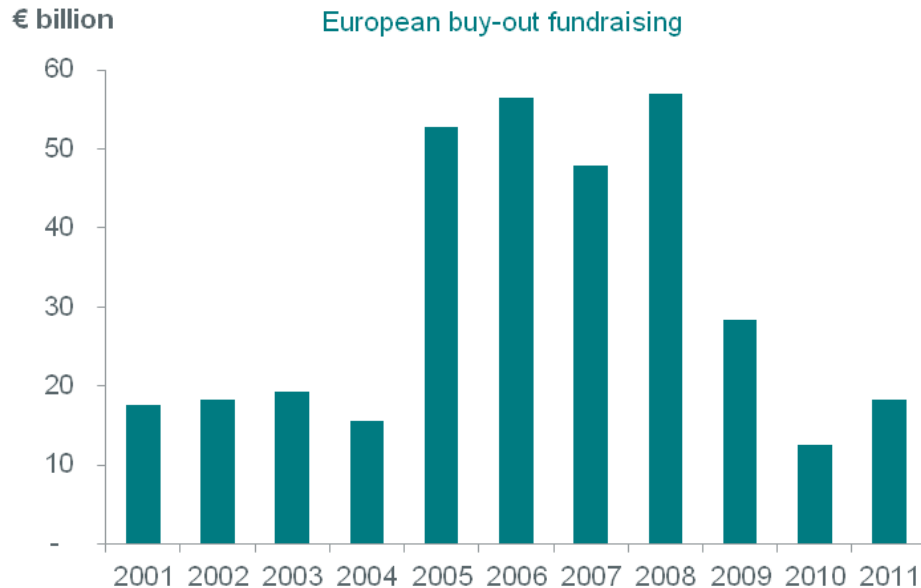
- A fund of funds portfolio has an attractive risk / reward profile
 - Very few funds fail to return cost
 - Diversification further reduces risk



4. Listed private equity

4. Listed PE

The listed sector is small compared with the private equity market as a whole



- The UK listed private equity sector has a market capitalisation of €7.5 bn *
- This compares with European institutional funds raised in the last five years of €164 bn

Sources: fundraising: Preqin; market capitalisation: JPMorgan Cazenove as at 19.01.12.

4. Listed PE

Listed private equity has many advantages

	Traditional private equity	Listed private equity
Accessibility	<ul style="list-style-type: none">• Minimum investment of €5 million or more?	<ul style="list-style-type: none">• No minimum purchase value
Liquidity	<ul style="list-style-type: none">• Locked in for the fund's 10 year life?	<ul style="list-style-type: none">• Shares traded daily on recognised exchange
Vintage year exposure	<ul style="list-style-type: none">• Commitments drawn down over 4 – 5 years• Provides exposure to future vintages	<ul style="list-style-type: none">• Immediate exposure to a mature portfolio• Proceeds reinvested in future vintages
Managing commitments	<ul style="list-style-type: none">• Commitments can be drawn down at any time• Timing of cash inflows is even harder to predict	<ul style="list-style-type: none">• No cash requirement after share purchase• Cash is returned via dividends / share sales
Administration	<ul style="list-style-type: none">• Drawdowns / distributions are time consuming	<ul style="list-style-type: none">• No administration other than share trades
Valuation	<ul style="list-style-type: none">• Valuations received two months after period end	<ul style="list-style-type: none">• Share price instantly available
Tax	<ul style="list-style-type: none">• Tax treatment is likely to be complex	<ul style="list-style-type: none">• Straightforward; similar to investment co's



4. Listed PE

The potential concerns are a widening discount and managing commitments

- Listed private equity companies typically trade at a discount to their net asset value
 - Investor returns are at risk if the discount widens
 - When discounts are wide this represents an opportunity
 - Some companies have traded at a premium historically
 - Sector discounts have been volatile

- Listed private equity managers take on responsibility for managing commitments
 - This is a complex and constantly shifting judgement
 - Insufficient commitments may result in under-investment and cash drag
 - Overcommitment can result in a shortage of cash



4. Listed PE

London-listed PE funds have assets of more than £9bn

Fund	Type	Focus	Last reported NAV (£m)
3i	Direct	Global	2,804
Candover	Direct	Europe	183
Dunedin	Direct	UK	158
Electra	Direct	Europe	821
Hg Capital	Direct	Europe	363
SVG*	Direct	Mainly Europe	1,046
Total direct NAV	Direct		5,376
Aberdeen	Fund of funds	Global	117
F&C	Fund of funds	Global	181
Graphite	Fund of funds/Direct	Europe	412
JP Morgan	Fund of funds	Global	426
Harbourvest	Fund of funds	Global	565
NB PE	Fund of funds	Global	325
Pantheon	Fund of funds	Global	859
Princess	Fund of funds	Global	542
Standard Life	Fund of funds	Europe	369
Total fund of funds NAV			3,796
Total listed PE NAV			9,172

* Principally single manager exposure (Permira) through funds



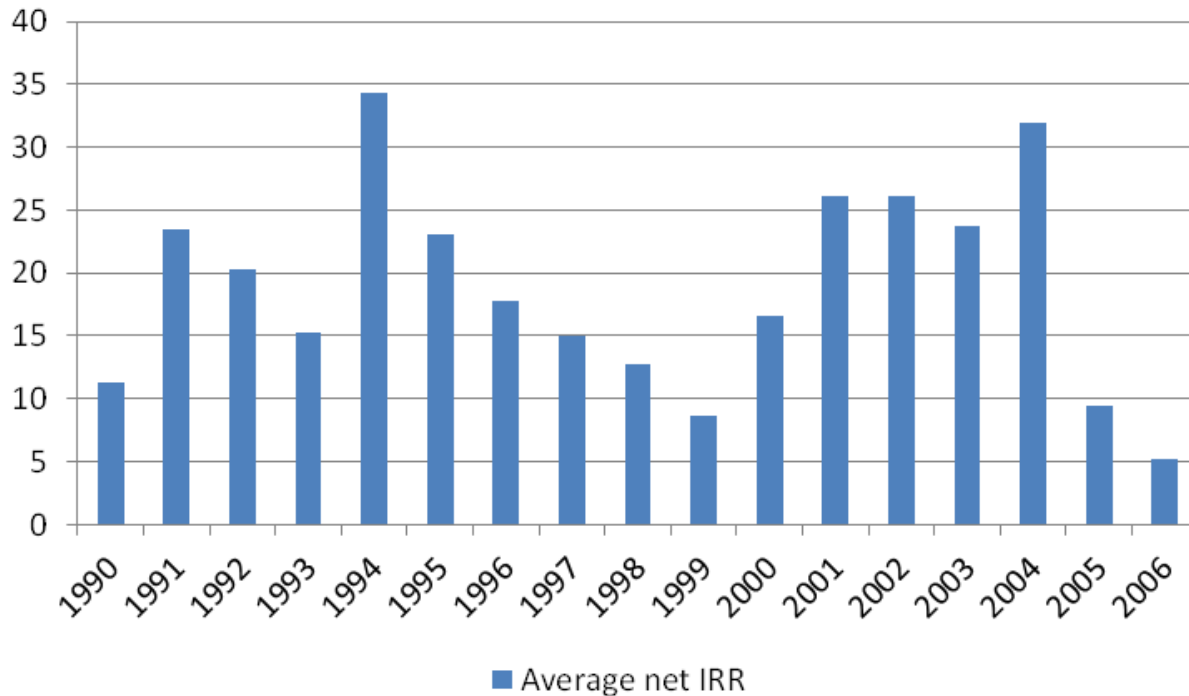


5. Listed private equity – five year history

5. Five year history

Traditional private equity funds performed well through the '90s and early '00s

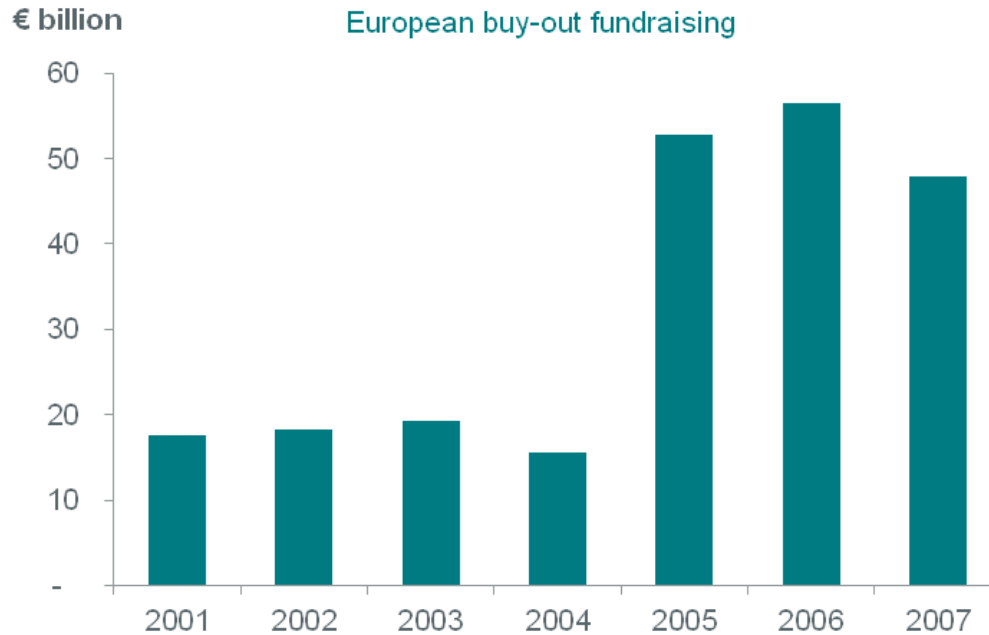
Net fund IRRs by vintage year (pooled basis):



Source: BVCA Performance Measurement survey 2010

5. Five year history

As a result, fund raising increased substantially



Source: Preqin

5. Five year history

Listed private equity funds also performed strongly over ten years to 2007

Years to 31 Dec 2007	3	5	10
PE NAV total return *	91%	142%	249%
PE Share price total return *	72%	158%	246%
FTSE All-Share Index	50%	105%	82%

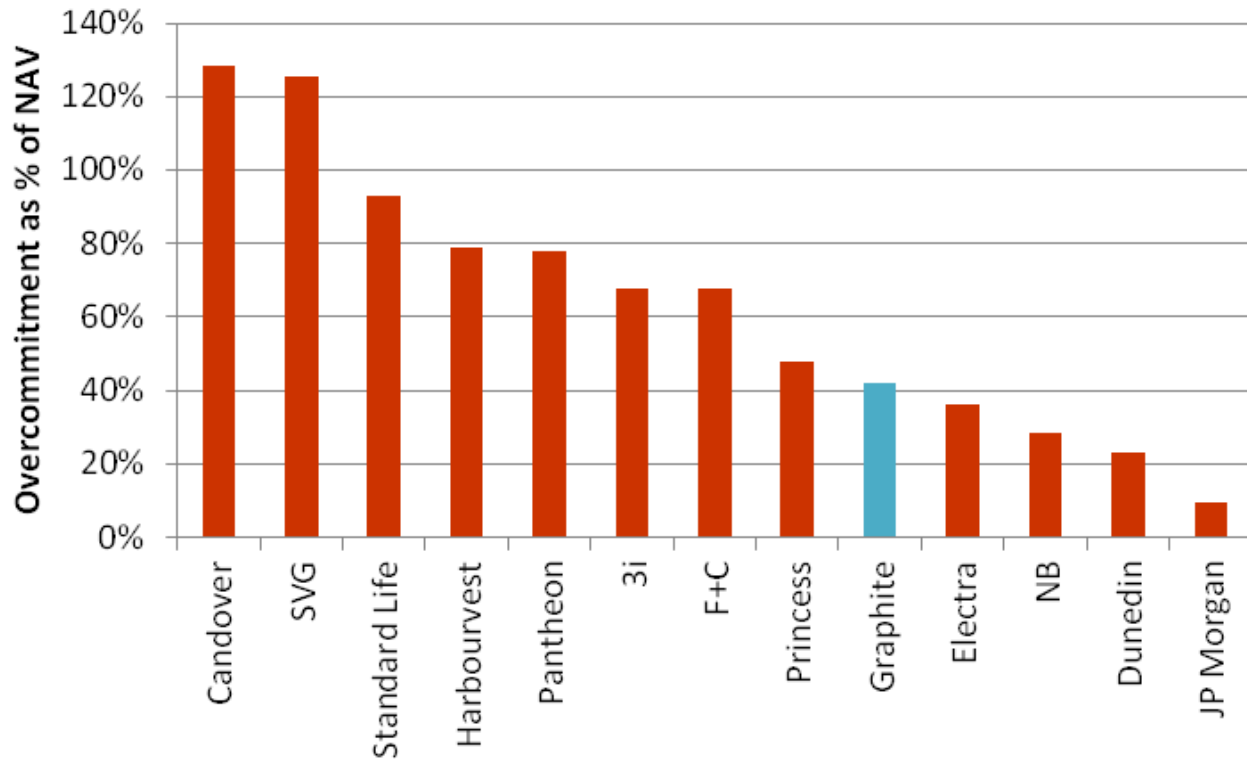
* Simple averages.

Source: Morningstar.



5. Five year history

Balance sheets were based on an assumption of continuing favourable conditions

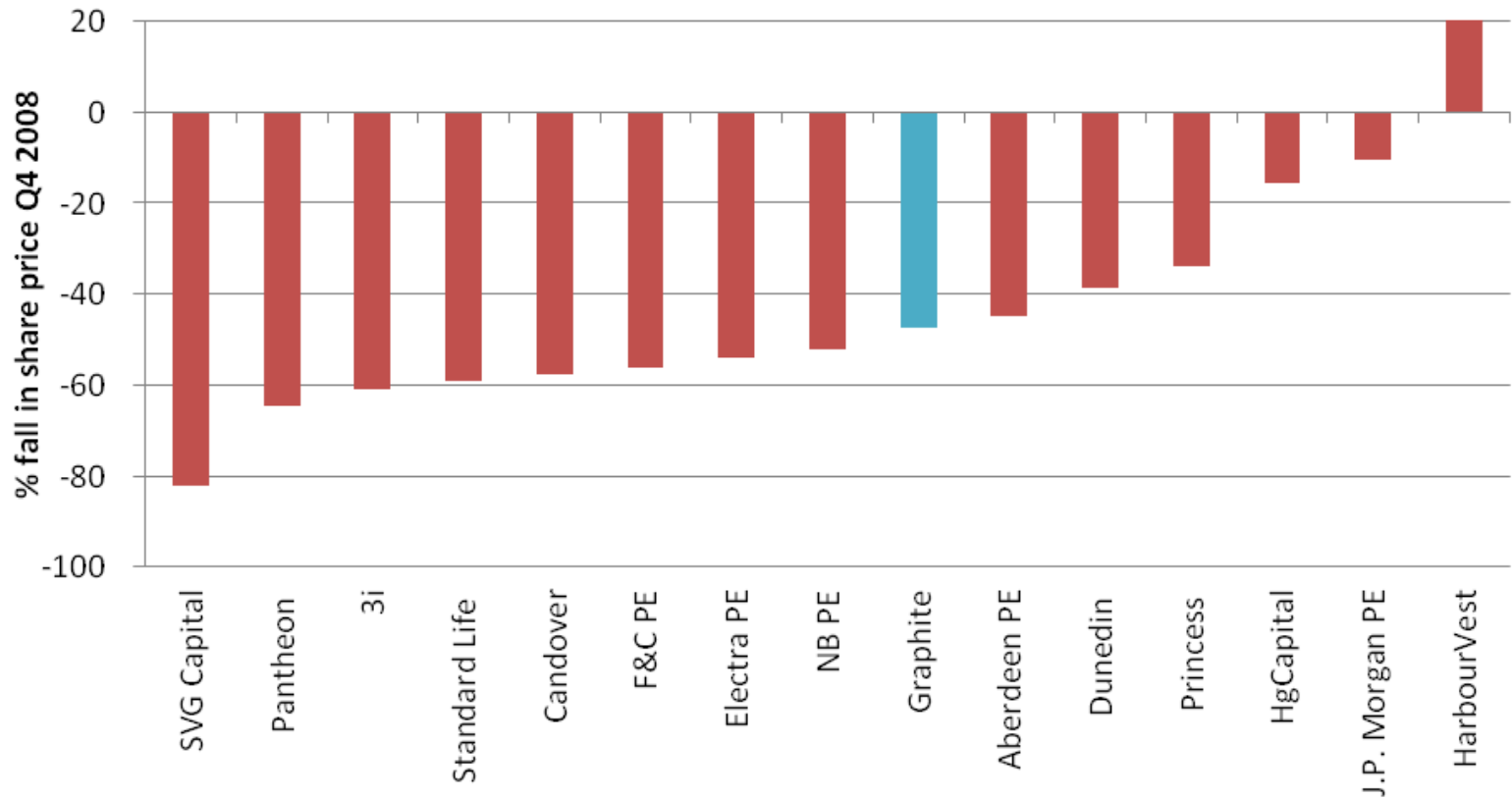


Commitments less cash or add net debt, as a percentage of net assets, 2007.

Excludes undrawn bank facilities. Candover pro forma for commitment to Candover 2008 fund made in 2008. Source: Morningstar.

5. Five year history

In Q4 2008 share prices of listed private equity fell very sharply



Source: Morningstar.

5. Five year history

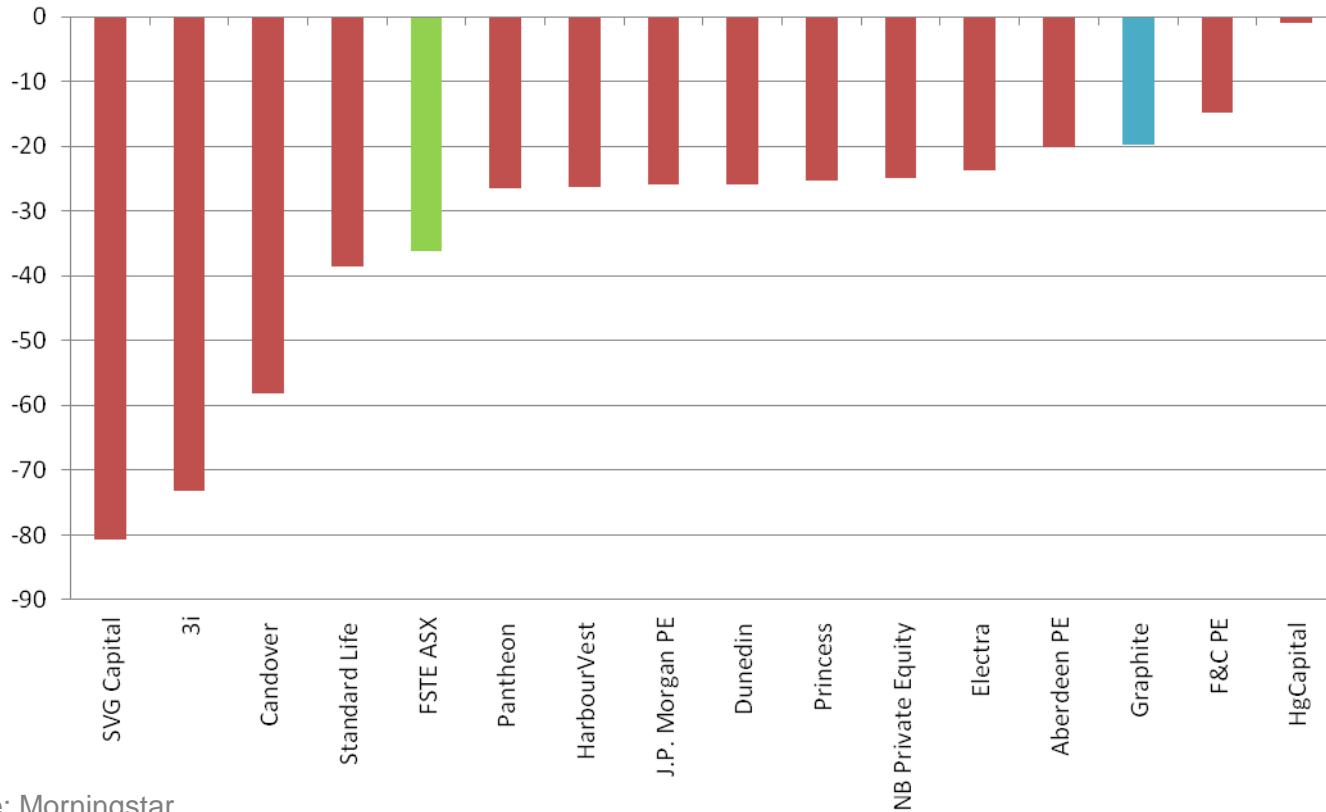
The impact of the financial crisis on private equity was uncertain

- The market was concerned that:
 - Listed funds were overcommitted and might not be able to meet drawdowns
 - Secondary funds were trading at high discounts
 - PE funds had paid high prices for recent acquisitions
 - These prices had been funded with high levels of debt
 - Gearing would make PE portfolios particularly vulnerable in a downturn
 - Valuations were unrealistic and did not reflect falls in the listed market

5. Five year history

Valuations subsequently fell reflecting the changed market conditions

- NAV performance from 31.12.07 to lowest reported point (reporting currency):

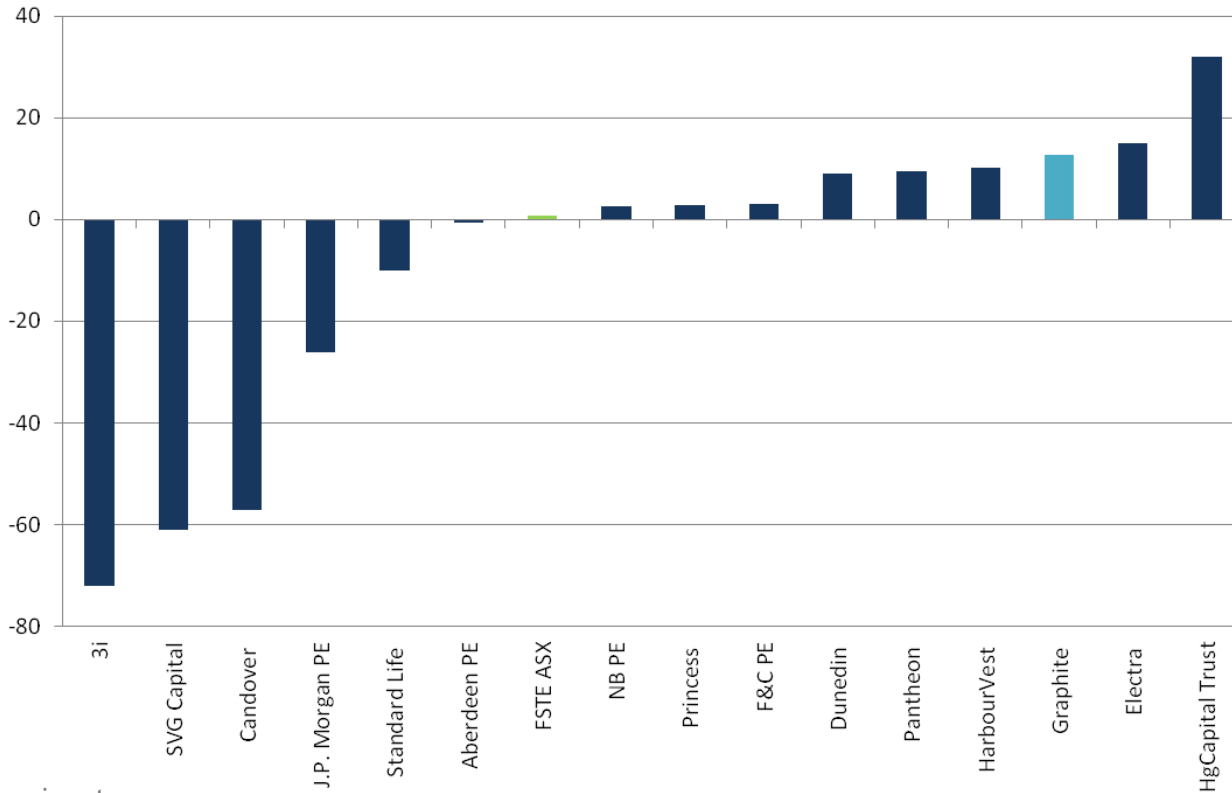


Source: Morningstar.

5. Five year history

However performance in the four years to Dec '11 was stronger than anticipated

% NAV performance from 31.12.07 to 31.12.11 (total return, reporting currency):



Source: Morningstar.

5. Five year history

The resilience of portfolios through the downturn demonstrates that the model works

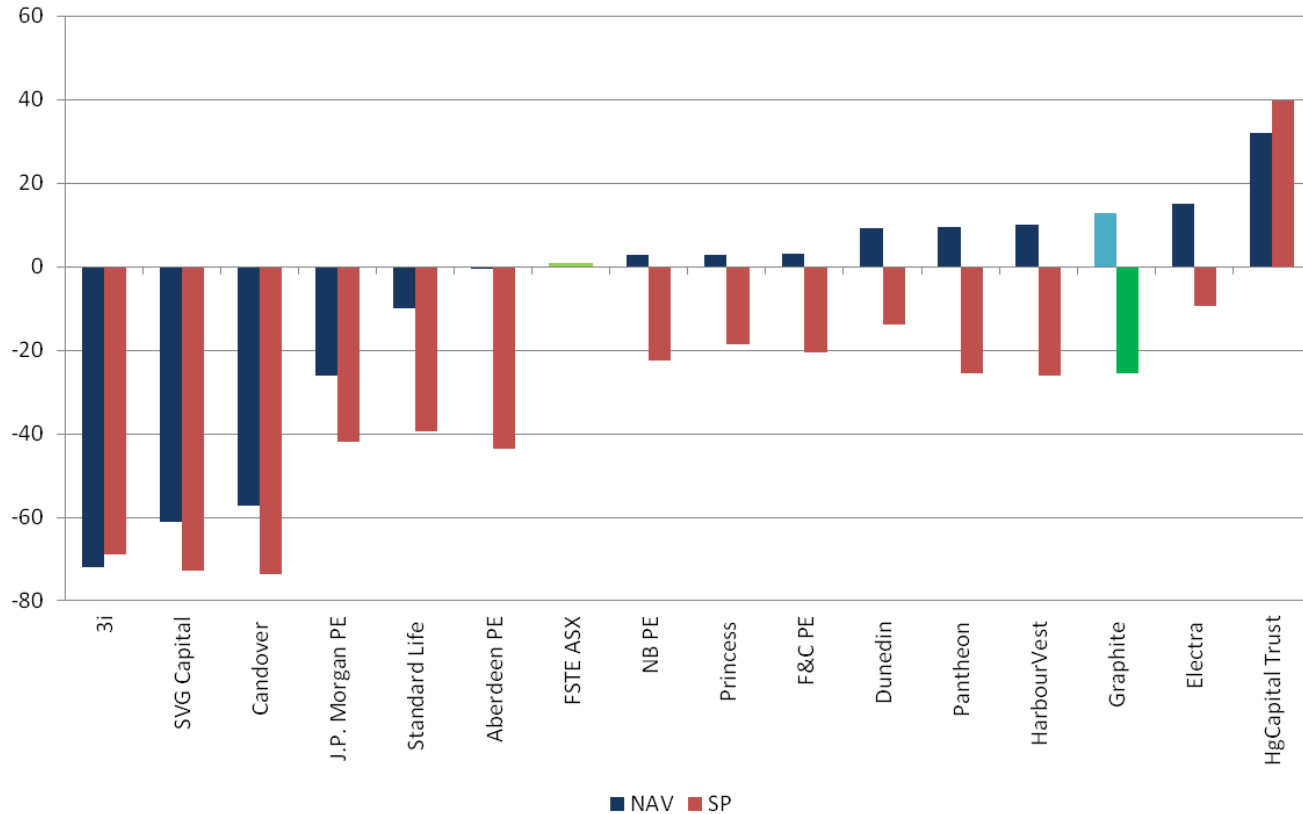
- PE managers responded rapidly to the downturn
 - Companies took early action to address trading issues
 - Banking facilities were renegotiated
- Earnings have increased faster than those of listed companies
- Debt has been paid down and leverage ratios reduced
- Many companies have been sold at material premiums to carrying values



5. Five year history

... but share prices have not reflected this performance

NAV and SP performance from 31.12.07 to 31.12.11 (total return, reporting currency):





6. Listed private equity today

6. LPE today

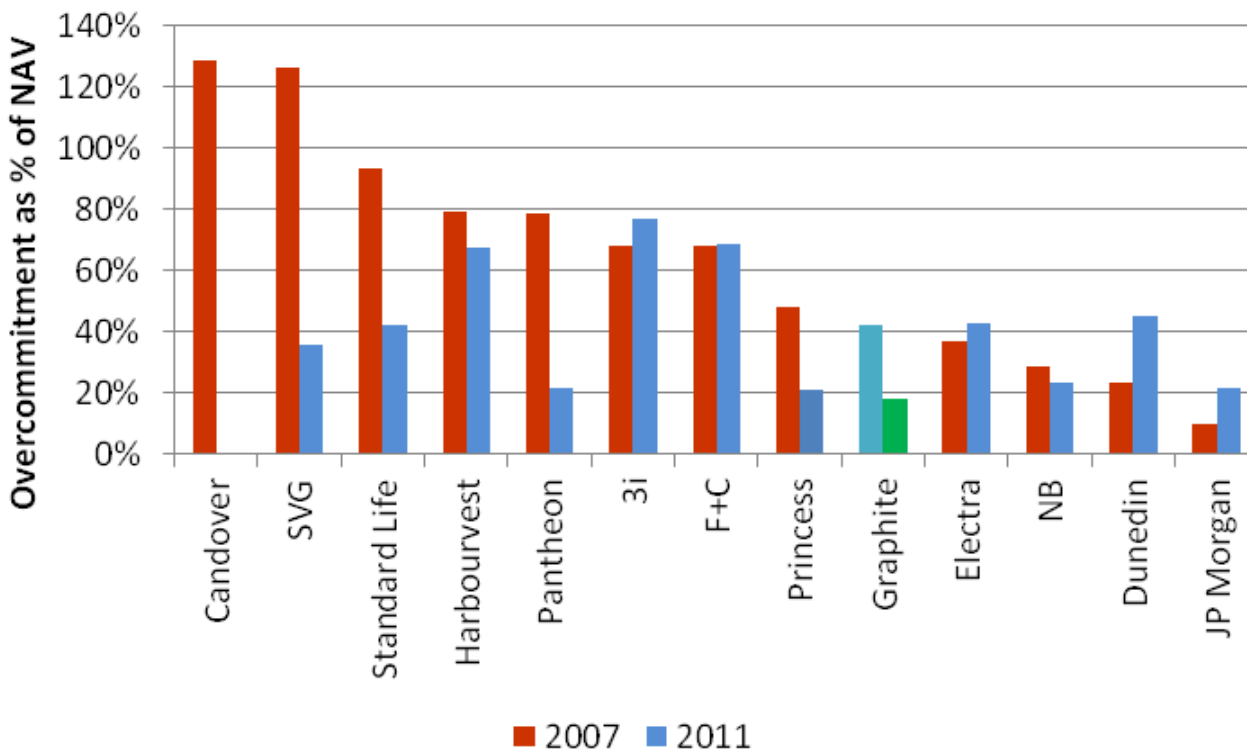
The listed sector has de-gearred and reduced commitments

- The investment pace in 2009 was slower than anticipated
- Commitments have been reduced through sales or other mechanisms
- New capital was raised e.g. ZDPs, rights issues
- Bank facilities have been put in place or renewed
- Realisations resumed in 2010 and 2011
- The approach to overcommitment has become more cautious



6. LPE today

Overcommitment levels have been reduced significantly



Commitments less cash or add net debt, as a percentage of net assets.

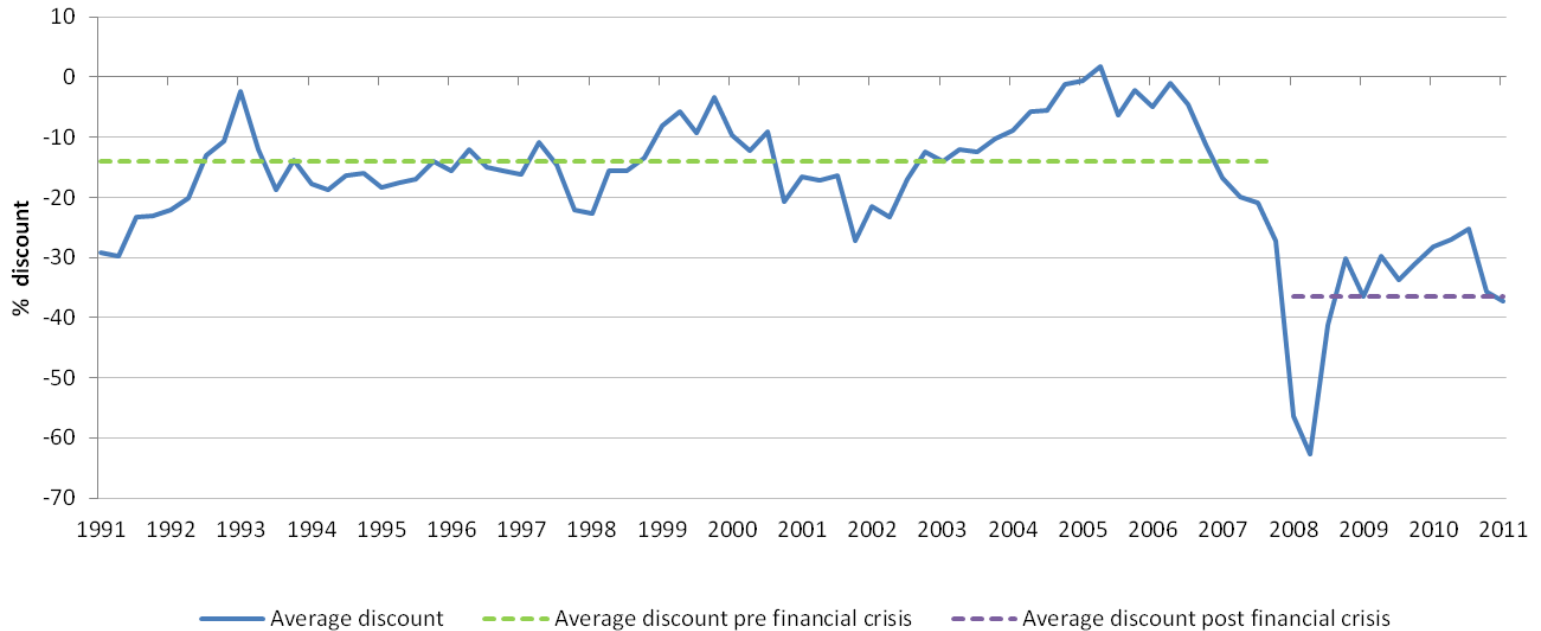
Excludes undrawn bank facilities.



6. LPE today

Discounts are high compared to historic averages

- Before the financial crisis, sector average discounts were 14%, compared to 36% since



Data set varies reflecting when each fund was listed. Source: Morningstar.

6. LPE today

Despite a 37% discount, the long term performance of the sector has been strong

Years to 31 Dec 2011	5	10	15	20
PE NAV total return *	12%	100%	251%	981%
PE Share price total return *	-22%	62%	192%	922%
FTSE All-Share Index	6%	59%	127%	378%
Opening discount	-5%	-17%	-16%	-29%

* Simple averages.

Source: Morningstar.

6. LPE today

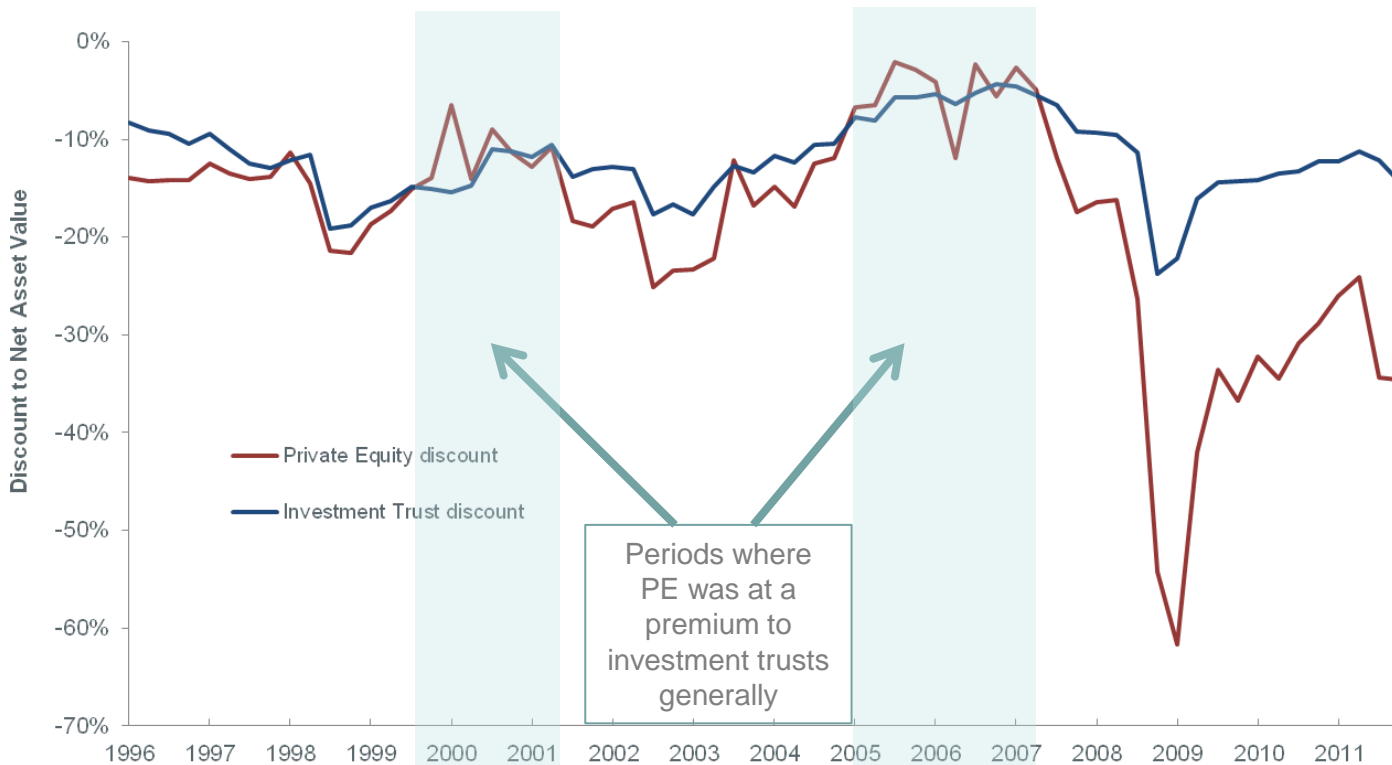
Although the concerns of 2008 no longer apply, discounts remain high

- Overcommitment:
 - Balance sheets have been significantly strengthened
- High secondary discounts
 - Secondary market discounts are now 0-15% for high quality managers
- High prices for acquisitions:
 - Recent acquisition prices take account of current market conditions
- High leverage
 - Debt levels have been reduced
- Vulnerability to downturn:
 - Performance through the downturn has been resilient
- High valuations:
 - Companies have been sold at significant premiums to carrying values

6. LPE today

Discounts are more likely to narrow than to widen

Private equity discounts remain wide relative to the investment trust sector



Sources: Morningstar



7. Graphite Enterprise



7. Graphite

Graphite Enterprise has an attractive business model

- Hybrid funds of funds / direct investment model
 - UK mid-market through Graphite Capital's own buy-out funds
 - Other sectors and geographies through third party fund investment and co-investments
 - Typically 20-25% through Graphite Capital
- The focus is on established, top performing European buy-out managers
 - UK mid-market mainly through Graphite Capital funds (in which it is the largest investor)
 - Other European markets and other UK sectors covered through third-party funds
 - Primary commitments, secondary purchases, co-investments
- The approach is led by the quality of the manager, rather than by geography or sector allocations
- We apply a direct manager approach to our third party fund investments
 - The Graphite Enterprise team has extensive direct investing experience
 - We benefit from the insight and market knowledge of the direct investment team
 - An ability to appraise underlying companies is key to evaluating managers' performance



7. Graphite

Graphite Enterprise has consistently outperformed the sector and the Index

NAV total return

Years to 31 Dec 2011	1	3	5	10	15	20
Sector average	7%	7%	12%	100%	251%	981%
Graphite Enterprise Trust	15%	28%	31%	128%	390%	1520%
FTSE All-Share Index	-3%	44%	6%	59%	127%	378%

SP total return

Years to 31 Dec 2011	1	3	5	10	15	20
Sector average	-6%	68%	-22%	62%	192%	922%
Graphite Enterprise Trust	14%	85%	-7%	75%	250%	1463%
FTSE All-Share Index	-3%	44%	6%	59%	127%	378%



7. Graphite

Balance sheet management has been consistently prudent

Graphite Enterprise	Dec 2008	Oct 2011
Cash/net debt ¹	42%	15%
Total liquidity (cash + bank facility) ¹	42%	29%
Overcommitment % ²	51%	18%
Peer Group average ³		
Cash/net debt	(8)%	(7)%
Overcommitment% ²	91%	39%

- Graphite Enterprise has had no borrowings in recent years
- Early action was taken in 2008 to ensure a strong balance sheet going into the downturn

1. As a percentage of NAV. 2. Commitments less cash (excluding undrawn bank facilities) as a percentage of NAV.
3. Peer group is UK listed funds of funds: F&C PE, HarbourVest, JPMorgan PE, NBPE, Pantheon, Princess, SLEPET.



7. Graphite

Graphite's performance demonstrates the attractiveness of the listed PE model

- The Graphite Enterprise net asset value has:
 - Outperformed the FTSE All Share Index in 16 of the last 20 financial years*
 - Outperformed in every three year period in the last 20 financial years*
 - Only underperformed when the Index has been bouncing back from underperformance
 - Generated a return of 24 times the amount subscribed since inception
- The EBITDA of the largest 30 companies increased by 18% pa+ vs 5% pa+ for the FTSE 250
- At the current share price, the effective entry multiple is 6.5x EBITDA
 - Compares with c.7.5x EBITDA for the FTSE 250

* To 31 January 2011; + 12 months to 30 June 2011





GRAPHITE ENTERPRISE

Questions?



Graphite Enterprise

Structure: Company registered in England and Wales

Investment trust tax status

Registered company number: 01571089

Ticker: GPE.LN

ISIN: GB0003292009

SEDOL: 0329200

Listing: Premium listing in London

Website: www.graphite-enterprise.com

Manager: Graphite Capital Management LLP

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