

## Business Markets

### 3I GROUP

**Premium/NAV**  
7 per cent

**Dividend yield**  
2.8 per cent

An investment in 3i Group is a bet on discount retailer Action. It is one that investors are still willing to take, helping 3i buck the dramatic downturn faced by the rest of the private equity sector.

The shares remain one of the few within the investment trust universe to continue to trade at a premium to net asset value, which stands at 7 per cent. A lack of diversity within the fund remains the clearest stumbling block. But the decision by Simon Borrows, chief executive, to remain highly exposed to the Dutch discount retailer has not failed shareholders — yet.

The trust's adjusted net asset value rose 8 per cent during the period and Action was a major driver, marked up by another 15 per cent. The performance of the retailer remains robust, which should give confidence in the validity of Action's valuation.

Like-for-like sales growth came in at 19 per cent over the first nine months of the year, driven primarily by higher customer footfall, while the retailer has continued to set up new shops across Europe. Portugal and Switzerland are the latest targets that can be years long. It also helps partially mitigate the problems that come with a lack of supply of new for expansion. 3i has increased its stake

to 54.8 per cent, from 52.9 per cent, during the first half of its financial year.

Borrows, who is also chairman of Action, has been willing to increase his bet. In October, Action issued \$1.5 billion in new debt, maturing in 2030, 70 per cent of which is hedged at an all-in cost of 6.3 per cent. That has taken the retail chain's leverage ratio to 2.1, from 1.3 at the end of September. The risk associated with any deterioration in the business has increased, but then so has the potential reward.

Not all investments have proved as fortuitous. Luqom, an online lighting the top line forward at a 20 per cent annual rate. But that took in the pandemic, when savings levels were higher. The group beat its last set of growth targets, set out in 2021. That won't come so easy this time around. retailer, was written down by £46 million to £225 million, as was its investment in Tato, a chemical company, by £81 million to £330 million. Yet unrealised losses of £219 million were offset by gains of £353 million, even excluding Action.

If 3i Group can continue to ratchet up the returns at the same pace, its premium does not seem like a big ask.

#### ADVICE Buy

**WHY** The return generated by the trust justifies the premium