EDISON

HgT

Key takeaways from the 2026 CMD

Investment companies
Listed private equity/TMT

11 June 2026

During HgT's recent capital markets day (CMD), Hg (HgT's manager) reiterated its confidence in the generational opportunity for software companies arising from the rollout of agentic AI products. Hg's AI imperatives for each of its portfolio companies in 2026 include: 1) a threefold increase in engineering productivity, 2) a 40% automation rate of support functions, 3) a 70% penetration rate of AI tools, 4) a 2pp increase in EBITDA margin, and 5) a more than 10% share of AI products in new bookings. Hg remains committed to investing in its eight core clusters, focusing on businesses that are segment leaders with top product-led management teams, deep domain and product complexity and a favourable competitive context that delivers mission-critical solutions with a high cost of failure.

Exhibit 1: Hg's AI activities are gathering pace

Source: Hg's internal analysis as at Q126. Hg's Data & AI Team including Hg Catalyst.

Substantial increase in AI projects and product builds

Hg posted a strong ramp-up in terms of live AI projects across its portfolio from more than 300 in 2024 to more than 1,600 AI projects as of Q126. Hg estimates (based on a survey conducted among its holdings) that these projects represent a benefit of c $260m of budgeted positive EBITDA from AI-supported initiatives as of end-2025, although it may not immediately translate into higher aggregate portfolio earnings as part of this surplus may be reinvested into further growth initiatives or offset by other factors. Hg also highlighted that it reached 100 AI product builds to date (up from more than 10 in 2024), with c 20% of portfolio companies now generating more than 10% of new bookings from AI.

Raising its 'skin in the game'

Ahead of HgT's CMD, Hg announced a strategic investment programme aimed at increasing the equity stake of Hg's partners, employees and Hg's balance sheet in HgT from the current c 6% to more than 15% over the medium term via on-market purchases.

Price		**387.00p**
Market cap		**£1,753m**
NAV		528.3p
Discount to NAV		26.7%
Current yield		1.3%
Shares in issue		453.0m
Code/ISIN		HGT/GB00BJ0LT190
Primary exchange		LSE
AIC sector		Private equity
Financial year end		31 December
52-week high/low	521.9p	320.0p
NAV high/low	561.9p	531.3p
Net gearing		3.3%

Fund objective

HgT's investment objective is to provide shareholders with consistent long-term returns in excess of the UK All-Share Index by investing predominantly in unquoted companies where value can be created through strategic and operational change.

Bull points

- Focus on resilient B2B software and services companies with broad client bases.
- Portfolio companies continue to deliver solid top- and bottom-line performances.
- Good initial progress in rolling out AI-enabled products.

Bear points

- Impact of AI on SaaS is difficult to accurately predict at this stage.
- Worsening investor sentiment in private credit markets may influence debt refinancing conditions for PE-backed companies.
- High net leverage of portfolio companies but supported by high share of recurring revenues, strong earnings growth and high cash generation.

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Well-positioned for the agentic AI opportunity

Hg's CMD strengthened the case that AI is becoming an operating capability across the portfolio rather than a thematic overlay. The most attractive opportunity is not generic AI adoption, but the conversion of trusted, workflow-embedded vertical software into AI-enabled systems of action. As highlighted in our previous update note, we believe that HgT is well-placed to benefit from the AI augmentation of software products across its portfolio. Hg has developed an efficient engine allowing for end-to-end AI product rollout within three months. Hg's agenda, fuelled by more than $80m of investments from its own balance sheet per year, is underpinned by Hg Catalyst, a dedicated AI product incubator with more than 100 engineers, designers and product managers (20 in-house and more than 80 contractors), which is part of a broader team of more than 150 AI value-creation experts. Hg's capabilities are aided by its multiple partnerships with AI providers (eg Anthropic, Cognition, Forethought) in agentic coding and support, customer success, answer engine optimisation, sales and chat. Hg's collaboration with Anthropic (initiated two years ago) now allows any of its portfolio companies to access Anthropic's products (Hg was also beta-testing some of them).

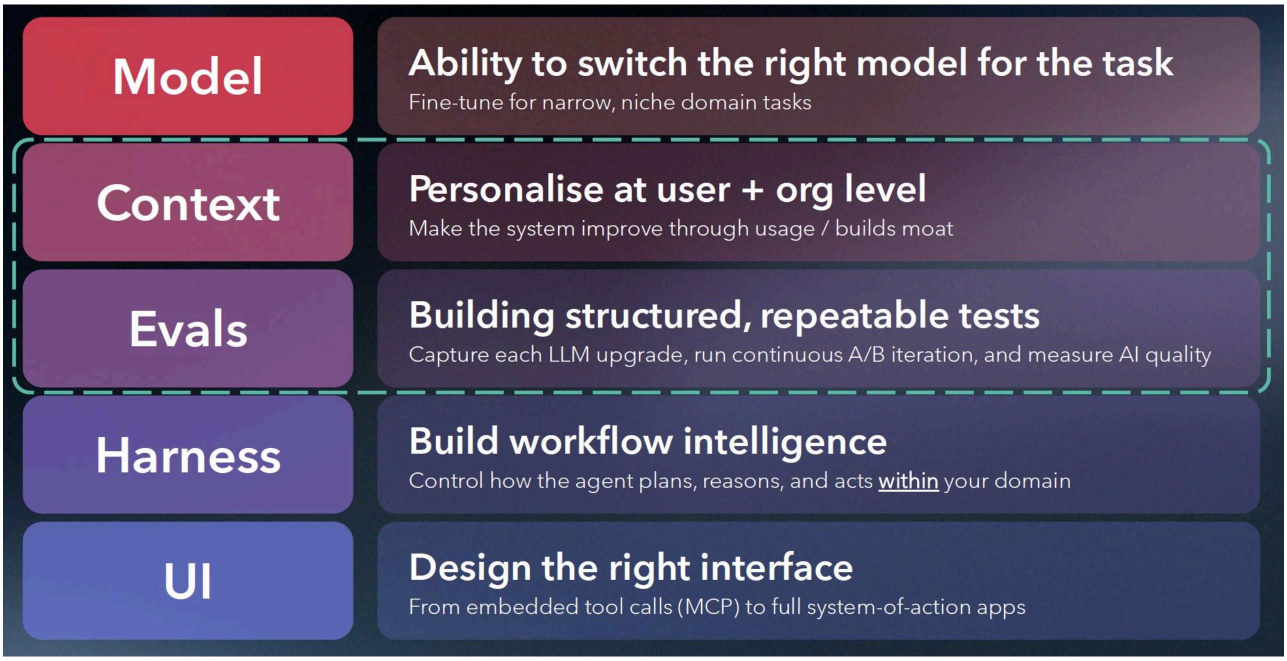
We believe Hg's portfolio companies are well-placed to become AI software winners in many of their vertical niches. They are trusted providers of mission-critical software that typically represents a low proportion of customer spend, but is deeply embedded in customers' systems and underpinned by proprietary datasets, deterministic workflows and extensive domain expertise. These features should matter in agentic AI, because enterprise customers require accuracy, auditability, governance and workflow integration, not just access to a capable model. This is particularly relevant where AI agents are deployed in areas such as finance, payroll, compliance, healthcare IT or legal and regulatory workflows, where error tolerance is low.

We are encouraged that, according to Hg, c 50% of revenues across its portfolio companies, and 70–85% for its top companies, are already outcome-based rather than derived from traditional per-seat pricing. This should position the portfolio well for a shift towards AI-driven pricing models. Outcomes are defined differently by company and may include, for instance, the number of invoices processed, issues resolved or certifications confirmed or may be linked to specific workflows that contribute to the final customer output. In principle, this model can allow customers to achieve cost savings versus manual processing, while giving Hg's portfolio companies scope to capture a greater share of value per customer. Hg aims to reinforce this positioning through product personalisation at the user and organisational level, combined with a structured approach to evaluating AI models as they improve over time (see Exhibit 2).

Some customers may still decide to build their own agentic workflows, use system integrators to build on top of existing systems or connect general-purpose enterprise agents to their software platforms. Horizontal workflow platforms such as ServiceNow also represent a potential competitive risk at the orchestration layer, particularly where larger customers want a single enterprise-wide control plane for AI agents. We believe this risk is lower, though not absent, for small and medium-sized enterprises, which form the core customer segment for many Hg portfolio companies and are less likely to build bespoke AI workflows themselves. Hg's head of research also noted that there is, so far, little evidence that AI-native companies are capturing market share in deterministic workflows. That said, Hg's companies will need to become the trusted system of action within their vertical niches before horizontal platforms commoditise parts of the workflow.

Finally, it is important to stress that AI products developed across Hg's portfolio are model-agnostic and are designed to match the model to the complexity of task in each process, a practice known as 'model routing'. As a result, these products rely mostly on open-source models and small language models, which allows users to optimise the consumption of tokens, that is units of text that the model processes (80% of which is now attributable to these models across Hg's portfolio). The CEO of Cognition, the provider of the coding agent Devin (which Hg also uses), recently highlighted that for boilerplate work, companies can obtain a five to tenfold improvement in cost efficiency by using models other than those offered by frontier AI labs. We consider model routing a prudent cost optimisation approach, especially given that frontier labs will, at some stage, prioritise generating a satisfactory return on their massive infrastructure investment. Models from frontier labs are also used across Hg's portfolio and are likely to remain relevant as long as they are at the forefront of agentic AI progress.

Exhibit 2: Hg's approach to building competitive advantage



Source: Company data

Significant internal buying and Hg's new strategic commitment

Hg believes that the market materially undervalues HgT's shares and its prospects. Hg's new strategic objective of increasing its stake in HgT to more than 15% follows meaningful earlier internal buying of HgT's shares in the year to date, including investments of c £20m by Hg partners and employees (who in aggregate have become the third-largest portion of HgT's shareholder register), purchases from all seven of HgT's non-executive directors as well as £19m spent on share buybacks initiated on 6 February 2026 (c 1.0% of share capital). Moreover, following a widening of HgT's discount to NAV, Valhalla Ventures (the investment vehicle of Preqin founders Mark O'Hare and Lindy O'Hare) built up a stake of more than 9.0% in HgT earlier this year, which it further increased in recent days to c 10.0%.

This is against a backdrop of rebounding prices across listed software equities, illustrated by the c 35% rally in the iShares Expanded Tech-Software Sector ETF between end-March 2026 and 1 June 2026, which was partly offset by a subsequent fall amid weaker sentiment across the broader equities market (bringing the ETF's year to date decline to 13%). The rebound was supported by positive news flow from several constituents with an extensive AI agenda, including ServiceNow, Datadog, Snowflake and AppLovin, among others. Another example of AI progress is Salesforce, which delivered 3.8bn agentic work units (a measure of discrete tasks executed by AI agents) to its clients across Agentforce and Slack, up 111% q-o-q. Near-term top-line growth forecasts for software companies remain robust at a low double-digit percentage level for 2026, well ahead of the broader US public market average, while the software premium in valuation multiples remains visibly below historical levels, according to Hg data (although we acknowledge that the current subdued software valuations are primarily due to investor terminal value concerns).

We note the robust investor appetite for Hg's private funds, with the most recent vintages (Mercury 5, Genesis 11 and Saturn 4) being oversubscribed and therefore reaching their respective hard caps (HgT's share in total commitments was c 8% for the first two and c 6% for the large-cap Saturn 4 fund). Meanwhile, HgT's share price is broadly unchanged since end-March 2026 and remains c 24% below the end-2025 level, resulting in a wide 27% discount to NAV.

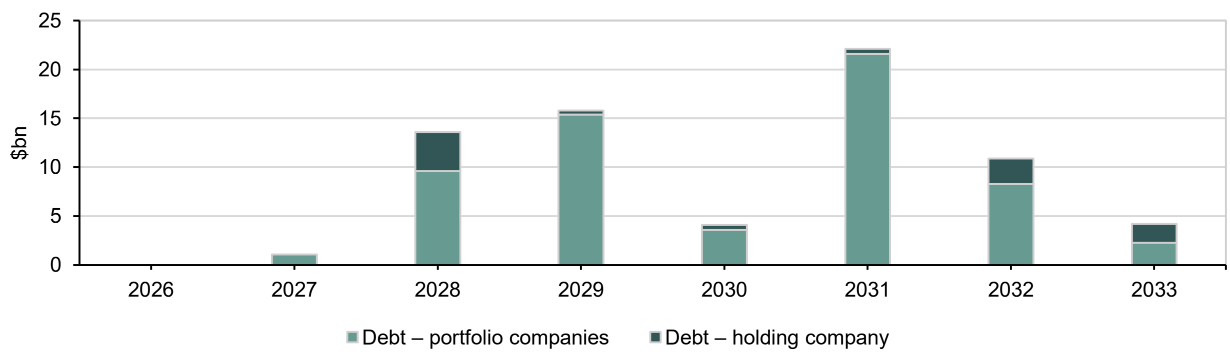
Hg is prioritising cash returns to investors over the next 12 months. HgT's £112m exit proceeds to date consist of, among others, the full exits of Intelerad (realisation proceeds of £52.2m, a more than 60% uplift to end-September 2025 carrying value) and Geomatikk (expected proceeds of £20.4m, implying a slight uplift to end-December 2025 carrying value despite being signed in the midst of the public market sell-off). We understand that the AI product roadmap of Intelerad (as well as GTreasury, a company exited in December 2025 at a 97% uplift to carrying value) was a key diligence item for the buyer (both companies were sold to strategic investors).

No major debt maturities across the portfolio in 2026 and 2027

Hg also provided an update on the debt financing across its portfolio, which is particularly helpful in the context of the recent worsening of investor sentiment across private credit markets driven by fears over AI disruption of software. There is no substantial maturity wall in 2026 and 2027 across Hg's portfolio, as more than 75% of debt maturities were extended to 2029 and beyond (see Exhibit 3). Hg maintains its active interest rate hedging strategy, with c 75% of debt by value being hedged as of March 2026. An average equity cushion of c 70% remains ahead of the 48% average across US and EMEA leveraged buyout markets, while weighted average net debt to EBITDA stands at 7.2x (with the median leverage level at 6.1x) as of end-March 2026.

The feedback Hg received from top credit general partners for software deals is that they remain open to providing financing but are focused on high-quality borrowers, especially in the large-cap space with a substantial equity contribution. Interest rates/yields on software loans increased in 2026 year to date from c 9.20% to c 12.02% for US dollar-denominated loans and from c 6.35% to 8.34% for euro-denominated loans, according to Hg citing PitchBook data as of 27 April 2026. Despite the tighter lending conditions, Hg completed several dividend recapitalisations and refinancing transactions in late 2025 and in 2026 to date.

Exhibit 3: Maturity profile across Hg's portfolio



Source: Company data as of May 2026, excluding companies for which a sale has been agreed.

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