Partners Group

REALIZING POTENTIAL IN PRIVATE MARKETS

31 MARCH 2023

Q1 2023 Review

Partners Group Listed Investments SICAV – Listed Private Equity

Cloudflight | Private Equity

Disclaimer

2023 Q1 review

Partners Group Listed Investments SICAV – Listed Private Equity started positively into the new year and closed the first quarter up around 3%. During January and February, the Fund performed well, supported by improving market sentiment and solid fundamentals. Portfolio companies reported results either in line or above expectations. In March, volatility increased, which was mainly driven by persistent inflation as well as weakness in the banking sector. During the quarter, alternative asset managers performed best. They reported fundraising for 2022 which was even slightly ahead of the record year 2021. Private equity vehicles were the second-best performers as underlying portfolio companies continued to grow despite the uncertain macroeconomic environment.

Alternative asset managers were the best performers during the first quarter of 2023. Despite investors' concerns about a slowdown in fundraising and transaction activity, the segment reported solid results. Fundraising in 2022 was slightly ahead of the previous year and, despite a cooling M&A market, managers invested a similar amount of capital. Ares Management was amongst the best performers. The company benefitted from its focus on private debt strategies, which are mainly exposed to floating interest rates and benefit in a higher rates environment. Fee-paying assets under management increased by 23% in 2022, driven by US direct lending funds as well as new capital raised for its evergreen "Ares Capital Corporation". Management also continued to increase perpetual capital, i.e. funds that have no defined terms but stay with the firm, now accounting for a quarter of total assets. Another strong performer was Brookfield Asset Management, which was recently spun off from Brookfield Corp and listed as a new asset-light manager. The company reported assets under management of USD 790 billion, up 15% in 2022, and continues to benefit from its strong position in infrastructure and energy transition, where it has some of the largest funds in the industry. Overall, while fundraising and transaction activity may slow in 2023, we remain confident that large managers will continue to outperform the broader market, given their strong fundraising platforms and ability to invest at scale. We also continue to prefer managers with exposure to asset classes such as credit and infrastructure, which benefit in an environment of higher rates and higher inflation.

Private equity vehicles were the second-best performing sector. Amongst the top performers in that segment was 3i Group. The UK-based company reported solid results, showing resilient growth in most of the portfolio companies. The largest holding, Action, a European discount retailer, continues to grow impressively. The company increased sales and EBITDA by 30% and 46%, respectively, during 2022, beating the business plan targets. It also expanded its network and opened 280 new stores. Most recently, management pointed out to the continued high demand for discount products and identified over 4'000 locations for potential new stores. Despite some improvement in the sector sentiment, private equity vehicles continue to trade at higher NAV discounts compared to historical averages. Fund-of-funds are trading at particularly high discounts, given expectations of declining NAVs during 2023. On the other hand, some PE vehicles, like the technology investor Prosus, were able to structurally reduce its discount, thanks mainly to the large share buyback program.

Business Development Companies ("BDCs") were slightly down during the quarter after good performance in 2022. The sector mainly has exposure to floating interest rates and benefitted from rising rates. Owl Rock Capital was among the better performing BDCs in our portfolio. In the last quarter, the company has increased investment income by 17%, and its dividend by 6%. Moreover, the company announced a special dividend. Despite widening spreads, the portfolio marks were solid, and the net asset value increased by 1%.

During the first quarter, we adjusted our exposure to alternative asset managers and increased allocations to managers with a higher exposure to debt strategies, that benefit from continued high interest rates. Throughout the last quarter, the valuation range of alternative asset managers widened, which we used to rotate within the segment and increase allocations to managers with more attractive valuations. Within private equity vehicles, we also adjusted our positioning and increased exposure to consumer staples at the expense of more cyclical vehicles.

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