Partners Group
REALIZING POTENTIAL IN PRIVATE MARKETS

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Q2 2022 Review

Partners Group Listed Investments SICAV – Listed Private Equity

Forterro | Private Equity

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2022 Q2 review

Partners Group Listed Investments SICAV – Listed Private Equity declined by 18% in the second quarter in an overall weak market environment. The negative performance was primarily driven by a correction in valuations, given higher interest rates and concerns around inflation, while underlying portfolio fundamentals remained resilient. During the last part of the quarter, concerns around slowing economic growth also contributed to weaker performance. In this uncertain macroeconomic environment, all segments of the Fund returned negatively. We remain confident that listed private equity companies continue to benefit from positive long-term tailwinds, driving superior growth against the overall market.

For the second consecutive quarter, alternative asset managers were the weakest performers, declining by 23% on average. While the macroeconomic environment has become more challenging, we continue to see evidence of strong fundraising across most managers. Brookfield Asset Management, the second-largest alternative manager globally, raised USD 15 billion for its first Transition Fund, and is on track to raise USD 25 billion for the Infrastructure Fund and USD 18 billion for the Real Estate Fund. Similarly, other established managers such as KKR and TPG, have also raised record funds. In addition to growing existing strategies, managers are also launching new growth initiatives, expanding into insurance and attracting retail capital. Overall, while there will likely be a slowdown in transaction activity over the next few quarters, the longer-term outlook for alternative asset managers remains positive. The sector trades at an average price-earnings ratio of 14x, which is attractive based on the growth outlook as well as historical multiples.

Business development companies (BDCs) were the best performers, although also declining during the quarter. The sector benefited from higher interest rates, given most investments are in floating rate debt. Investors, however, are concerned by a slowdown in origination activity, which may lead to stretched dividend coverages. We remained selective on the sector, only investing in companies with defensive portfolios, low leverage and established origination platforms.

Direct investment companies lost 16% during the quarter, although performance was quite heterogeneous. Companies with exposure to venture and growth-oriented sectors suffered most, driven by negative market sentiment. Prosus, one of the largest technology investors, was an outlier and was the best performer during the quarter. The company owns a large stake in Tencent, the large Chinese tech conglomerate, worth around USD 110 billion. The portfolio has become concentrated on the investment, leading to a high discount to fundamental value. During the quarter, management announced it would gradually reduce its stake in Tencent and use proceeds to buy back its own shares. The buyback will reduce the NAV discount and was a positive catalyst for the company.

Fund of funds lost 18% during the quarter, driven by widening of NAV discounts. The sector trades at an average NAV discount of 43%, higher compared to the historical average of 20-25%. Widening of discounts reflect expectations of NAV declines in the second part of the year. Based on our discussions with managers, we expect NAV declines to be less severe than what the market expects.

Following the correction in the first half of the year, we believe the underlying portfolio companies are trading at attractive valuations, and therefore, the Fund offers an attractive entry point into the asset class. The portfolio remains focused on alternative asset managers, for which the outlook remains promising, driven by strong fundraising. Differently from previous crises, alternative managers are increasingly dependent on management fees, which are predictable and locked-in for several years. In recent weeks, we opportunistically increased our allocation to managers with attractive outlook and valuation, such as Brookfield Asset Management and Intermediate Capital. We also retain our allocation to BDCs, which provide some interest rate hedge in the current macroeconomic environment.

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