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# Q2 2023 Review

## Partners Group Listed Investments SICAV – Listed Private Equity

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**2023 Q2 review**

Partners Group Listed Investments SICAV – Listed Private Equity completed a strong second quarter and was up 8%. The Fund generated most of the gains during May and early June, driven by a good start into the Q1 earnings season with the majority of portfolio companies reporting in line or above expectations. Market sentiment remained positive and was supported by the US debt ceiling deal as well as the release of macroeconomic indicators pointing towards lower inflation, which fueled expectations about rate cuts. During that quarter fund-of-funds performed best. Key drivers were better than expected portfolio valuations, improved investor sentiment, which resulted in moderate discount contraction, as well as an appreciation of the British Pound. The second-best performing sector was direct investment companies, which benefitted from the same trend of strong portfolio valuations and discount contraction.

During the second quarter, fund-of-funds gained 10% on average. The best performer in our portfolio was UK-listed Pantheon International. Investors were concerned that NAVs would decline as lower GP valuations are reflected but the company surprised with stable valuations. During that time, the company strengthened its balance sheet and is now covering two-thirds of total outstanding commitments with cash and its credit facility. It received distributions throughout the period but did not commit to new funds. Instead, management exploited the attractive valuation of the vehicle and bought back own shares. Given the current discount of above 40%, those share buybacks are highly accretive.

Direct investment companies performed second best and were up close to 8% on average. The key driver of the segment was strong NAV growth, and to a lesser extent discount contraction. Among the best performers was 3i Group. The UK based private equity firm published strong results for its full calendar year 2023, which ended in March. The underlying portfolio companies performed very well. The largest holding, Action, a leading non-food discount retailer, increased revenues and EBITDA by 46% and 30%, respectively. The company benefits from its strong market position and price leadership. The growth strategy relies on opening new stores and expanding the network Europe wide. Management remains very positive on Action's growth prospects and highlighted over 4'000 identified potential locations for new stores, which would triple the current store network. Other larger components of the portfolio such as healthcare and infrastructure were also performing well, and management proposed a dividend increase of 13%. Another strong performer was HgCapital Trust, a British private equity investor with a focus on the software sector. The company published solid quarterly results with NAV up 4%. The key holdings were performing well and reported revenue and EBITDA growth of 30% and 27%, respectively. The companies are benefitting from the software-as-a-service business model, strong market positions and high pricing power.

Alternative asset managers were third best and gained 7% on average. Managers with a focus on private debt performed best and benefitted from rising rates in two ways: Firstly, the portfolios are mainly invested in floating interest rates, which resulted in strong performance of the funds. Secondly, higher rates and solid fund performance resulted in higher client demand and solid fundraising. Ares Management was among the best performers. The manager has a focus on private debt, in particular direct lending, and reported strong results for Q1, with fee-related earnings up 24% and assets under management increasing by 11% year-over-year.

Lastly, Business Development Companies, were up on average by 3%, with Oaktree Specialty Lending being amongst the best performers. The portfolio is invested primarily in floating rates and benefitted from higher rates while its credit quality remained strong. It recently completed a merger with a smaller credit vehicle, which resulted in a stronger balance sheet with lower leverage and positions the company well for potential stress in the banking sector. Management remains very positive on credit trends and the well-covered dividend provides the potential for an increase in the coming quarters.

During the second quarter, we further rotated our allocations within alternative asset managers and increased exposure to debt-focused managers, as their fundraising prospects remain attractive. In addition, we slightly increased our exposure to direct investment companies with exposure to consumer staples.

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