Q3 SEP26

Lazard Listed Private Markets Commentary

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ASSET MANAGEMENT

Market Review

The summer was anything but quiet in markets. A febrile geopolitical environment and continued sensitivity around the expected impacts of artificial intelligence (AI), both positive and negative, continued to drive volatility. At the end of the quarter, the prospect of higher bond yields and the potential for interest rates to follow weighed on sentiment. Rightly or wrongly, a higher risk-free rate is seen as a negative for the majority of the Lazard Listed Private Markets (LLPM) universe on account of leverage being an integral part of many private market investment strategies.

Portfolio Review

The third quarter was more turbulent for the LLPM strategy than the headline returns might suggest (LLPM: +4.0%; MSCI World: +1.9%; S&P Listed Private Equity: +0.3%). July and August witnessed strong gains (LLPM: +13.6%; MSCI World: +3.1%; S&P Listed Private Equity: +12.3%), while September saw the majority of those gains relinquished (LLPM: -8.4%; MSCI World -1.2%; S&P Listed Private Equity -10.6%).

Performance was positive across all asset classes in the quarter, with the best returns enjoyed in listed private equity (+6.9%) and diversifiers (+4.5%), while private credit (+2.9%), managers (+2.5%), real estate (+1.3%) and infrastructure (+1.0%) were more muted.

Results from private market asset managers in June and July were generally encouraging. KKR has been listed for 17 years, and, on its results call, Co-CEO Scott Nuttall neatly summed up the gap between perception and reality that we see in the shares of most such companies today:

“We don’t recall a period of time where the external perception is so disconnected from the operating fundamentals and how it feels inside the firm. The best response to pessimism is performance, and so we’re largely inclined to let the numbers to the talking.”

KKR’s accompanying results included record fee-related earnings for the quarter and a +37% increase in the same metric over the prior year. Fee-paying assets under management have grown 15% in the last year. KKR’s shares were flat over the quarter and are down close to 30% so far in 2026.

London-listed private market asset manager Bridgepoint (BPT) was the best-performing company in the portfolio over the quarter, rising by 30.2%. This was likely driven by positive broker coverage highlighting the attractive valuation, superior growth, and sound rationale for the announced acquisition of the Kayne Anderson Real Estate business. BPT’s US energy infrastructure business (ECP) also captured headlines, with portfolio investment ProEnergy (Texan power generation and engineering) mulling an IPO or continuation vehicle. This could crystallize carried interest for BPT shareholders in excess of 10% of the current market cap – remarkable considering this is a single asset in a single strategy. A successful transaction would also help cement ECP V as the best performing infrastructure fund ever, with annualized IRR currently trending around 60%.

RIT Capital (+11.0%) was another strong performer in the quarter, aided by undertaking a tender offer to repurchase £300m of its shares, representing around 6.5% of the company’s issued share capital. The tender was priced at a 15% discount to net asset value (NAV) net asset value (NAV)—the value of a public company’s stakes, real estate, and private company holdings, minus debt and liabilities. the value of a public company’s stakes, real estate, and private company holdings, minus debt and liabilities—offering investors a meaningful uplift (c.18%) from the undisturbed share price. We were able to exit around 20% of LLPM’s holding through the tender. This is a positive step in addressing the discount, whilst performance also continues to improve. Consistent positive newsflow on RIT Capital’s private investments, which are heavily skewed towards late-stage US venture, should remain a tailwind alongside continued share buybacks.

We expect to see more investment companies conducting tender offers if discounts to asset value remain wide, particularly in the listed private equity sector. Harbourvest Global Private Equity (HVPE) is expected to conclude its own tender offer (for c.10% of its issued share capital at a -10% discount to NAV) before the end of the year. At the end of September, HVPE shares traded close to a 30% discount to our estimated NAV.

Notable laggards in the quarter included LLPM’s two Brookfield holdings, Brookfield Corporation (-14.2%) and Brookfield Infrastructure Partners (-6.4%). Brookfield Corporation’s recent underperformance versus other managers is partly explained by its stakes in its own listed partnerships for infrastructure (Brookfield Infrastructure Partners or BIP) and renewables (Brookfield Renewable Partners or BEP). We believe their weak performance has been driven by Brookfield’s plan to collapse dual share classes of BIP and BEP into a single security for each. This has proven to be a short-term, technical headwind, but we believe it will be a long-term positive, with simplified capital structures likely to improve marketability and liquidity. Brookfield is an obvious target for interest rate concerns given its focus on real estate and infrastructure. At Brookfield Corporation, the discount to the sum of its parts (Brookfield Asset Management + listed affiliate stakes + balance sheet real estate assets + carried interest) is widening once more, and we expect to see further buyback activity.

It was a relatively active quarter for the portfolio, as we sought to take advantage of market volatility. We added back to precious metal royalty companies Franco Nevada and Wheaton Precious Metals in July, selling in September as rate concerns rose (a headwind for non-yielding assets) and to lock in significant short-term absolute and relative outperformance. We exited two BDCs, Oaktree Specialty Lending (OCSL) and Blackstone Secured Lending (BXSL). The former was sold on relative value grounds, whilst the latter was motivated by management signaling the likelihood of a dividend cut in 2027, which we do not believe is reflected in the price today. We added to MidCap Financial Corporation (MFIC), where a discount to NAV over 30%, a 14% dividend yield, and potential for a corporate action add stock-specific appeal. We initiated a holding in Owl Rock Technology Finance (OTF), where distressed pricing (-40.9% discount to NAV) reflects a perfect storm of software-related concerns and technical factors (post-IPO lock up expiries, the company having only listed in 2025). A portfolio that is >80% senior secured loans, yielding over 14% and with balance sheet flexibility provide comfort that this reflects an attractive risk reward opportunity.

Trading Activity

Purchases

Franco Nevada, Wheaton Precious Metals, Blackstone, Blue Owl Technology Finance, Pershing Square Holdings,

Sales

Picton Property Income, Blackstone Secured Lending, Franco Nevada, Wheaton Precious Metals, BH Macro,

Additions

EQT, MidCap Financial Corporation, Harbourvest Global Private Equity, Bridgepoint, 3i Group, Brookfield Infrastructure Partners, Brookfield Corporation

Trims

RIT Capital (tender offer), 3i Infrastructure, TPG

Outlook

In reviewing last quarter's comments, it struck us that whilst the market is once again punishing listed companies exposed to private markets, little has changed in terms of outlook for the portfolio. We believe the renewed re-pricing has much more to do with investor psychology and competition for capital than adverse fundamentals. Therefore, it is worth repeating what we said before the summer:

"We see attractive stock specific opportunities across the LLPM universe. We define opportunity as the prospect for future returns consistent with the strategy's stated objectives. We identify it through the careful assessment of the valuation we must pay for an asset and the growth of capital and income we expect to receive in return.

The favorable environment for stock picking is the result of the broad (but not synchronized) sell-off of private market assets over the last five years. This period spans the end of the zero-interest-rate environment (which put real estate, infrastructure and venture capital under pressure but was a boon to private credit), a generally buoyant fundraising environment (bullish for managers, especially for private credit and semi-liquid funds), and then an abrupt reversal in sentiment, brought on by macroeconomic and geopolitical factors combined with a more cautious assessment of fundamentals and valuations. We have yet to see firm evidence of the downward shift in the long-term prospects for the LLPM portfolio that the market has priced in. The current backdrop of reasonable economic and earnings growth, seemingly abundant liquidity and relatively stable inflation and rates is perfectly agreeable for the Strategy's investee companies. This is inconsistent with the valuation of those same companies, many of which now trade at valuations below those witnessed at the onset of Covid or even the global financial crisis.

For allocators, we believe the rationale for accessing private markets through listed companies is strong and getting stronger, not just based on LLPM's own merits but also, in our opinion, the increasingly obvious flaws in other "liquid" routes to investing in such assets."

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