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The winter of discountent

LPE trusts are ramping up returns of capital - what lessons for the rest of the sector?

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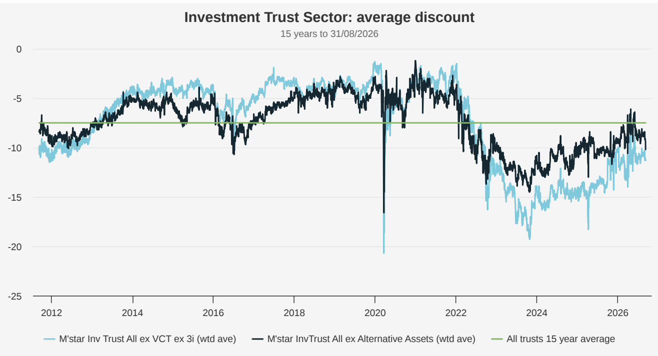
The investment trust sector as a whole experienced discounts widening dramatically in 2022, before having come back in over the last few years, with the sector currently at around a 10% average discount. As we discussed in a recent strategy article, equity trusts have been the major driver behind the average discount coming in over the past two years, but many areas of the alternatives space remain significantly de-rated. The graph below illustrates this, by which the average discount of equity trusts' (ie ex alternatives) widened by significantly less than the whole sector, showing the de-rating experienced by many alternative asset classes during 2022. Average discounts for equity trusts remain narrower than those for alternative assets.

Average discount

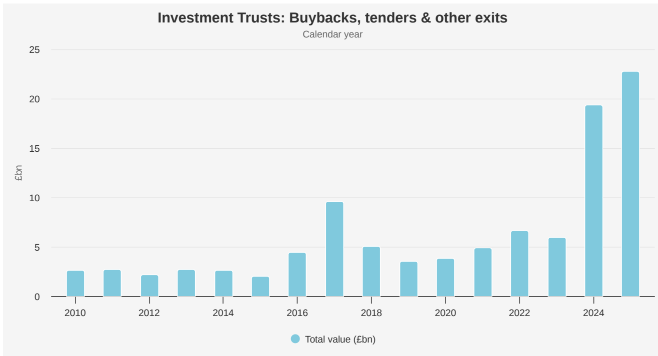


Source: Morningstar

Capital returns to shareholders have surged

Wide discounts are seen by some as a symptom of discontent. In fact, discounts really reflect investors' preference for liquidity today as opposed to "full" value at a point in the future. For more illiquid assets, that point in the future will be significantly further away than for more liquid underlying assets. As such, with the sector shrinking rather than expanding, a wider discount than equity trusts makes intuitive sense. However, this period of unusually wide discounts (as well as other market dynamics) has triggered many boards across the wider sector to contemplate their trusts' futures. The result has been a huge wave of corporate activity as well as much more attention being paid to share buybacks and tenders. Capital returns across the sector reached a new record high of £22.7bn in 2025 (according to data from JPMorgan Cazenove), beating the previous all time record set in 2024 – see below. The trust sector is undoubtedly taking its medicine: but is it having an effect?

Historic returns of capital



Source: JPMorgan Cazenove

Past performance is not a reliable indicator of future results.

Are capital returns the answer?

Despite this avalanche of activity, it is not clear that returning capital is necessarily the answer to a wide discount. JPMorgan Cazenove in their 2026 Annual Review included an analysis on the effect of buybacks on discount levels across the entire sector, and concluded that "many factors affect discounts, but it appears that buybacks at scale do not really seem to have a discernible impact [on the level of a discount]". There are many other influences on a discount level, not least market sentiment towards asset classes and sub-sector dynamics too.

That said, short of winding up a trust, progressively returning capital to shareholders is a tangible and visible way for the board to demonstrate their belief in the NAV, but also that they recognise that the share price discount is unwarranted. Another advantage of buybacks is that they are accretive to NAV per share, rewarding loyal shareholders with a risk-free NAV boost. As such, amongst most boards it is often the first tool they grab when confronted with a very wide discount.

The disadvantages of returning capital through buybacks or a tender are that aside from addressing a short-term supply and demand mismatch, as we have discussed there is no clear evidence that discounts narrow as a result over the long run. Additionally, if fixed or structural gearing is employed, then returning capital to shareholders also mechanically adds to gearing, but also arguably makes the remaining shares less liquid. Both of which mean an arguably less attractive package as an investment product post a significant return of (equity) capital, and therefore potentially a wider theoretical discount to the new (post buyback / tender) NAV.

Listed private equity as a case study

Listed Private Equity sector has been dealing with some of these same issues for a number of years now (in some cases, ever since the GFC in 2008). Whilst mergers have been absent from this sub-sector, slow moving wind-ups have been a feature over the years. The sector is far from immune from the threat posed by arbitrageurs or activists (Edward Bramson having very successfully wound-up Electra from 2016 onwards), and several trusts have Saba as an investor. Over the last couple of years, we have noted a significant change of pace of returning capital to shareholders. Of note, several boards have instigated formulaic "distribution pools", effectively tagging a proportion of capital from realisations or asset sales to return to shareholders at a point in the future. It would appear that shareholders in the LPE sector are increasingly seeing capital returns as a 'sine qua non' of supporting boards and remaining on board as a shareholder.

Capital allocation decisions (including returning capital to shareholders) for listed private equity trusts are absolutely crucial, especially given the long timeframe that PE investing requires, and decisions can be finely balanced. Boards need to keep iterating their capital allocation strategy as variables change (discounts to NAV, realisation activity, balance sheet strength, IRRs on prospective investments etc): the implications of capital allocation decisions today will be felt in many years to come. It is this latter point that appears to be coming increasingly to the fore in terms of strategy. The board of **Neuberger Private Equity Partners (NBPE)** for example noted recently that in retrospect, given the performance of more recent deals in the portfolio, de-gearing the trust over the period since 2022 has actually held back NAV returns in their view. The performance of more recent vintage deals have significantly outpaced the rest of the portfolio. As such, they have evolved their capital allocation framework so that it reflects their twin desires to refresh the portfolio, but also to continue to return capital to shareholders through the dividend and buybacks. NBPE is in a strong position to do so, given it invests solely through co-investments, giving the board and manager full control over investment activity, and enabling real-time decision making on asset allocation choices. This contrasts with other multi-manager trusts in the sector which deploy capital in the traditional, more protracted manner of commitments being made, called at a later point etc.

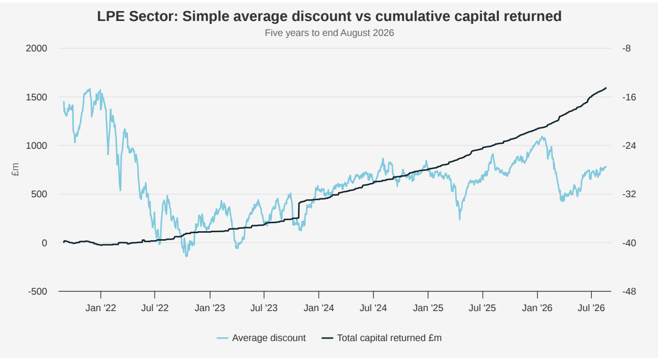
Clearly if a trust is to be definitively wound up, then future returns from contemporary investment vintages don't need to be considered, and all available capital should be directed towards being returned to shareholders. However, if shareholders want to see their investment compound returns over the next decade, then the board needs to ensure the investment hopper is not neglected. With **HarbourVest Global Private Equity's (HVPE)** recent continuation vote having been supported by 98% of those that voted, it would appear that investors remain committed to the trust and the sector, despite the relatively muted recent period of NAV returns. As such, aside from considerations on gearing and liquidity of the remaining shares, boards appear to be balancing their desire to deliver returns of capital with the requirement to re-invest.

Has returning capital had an effect?

As we note above, returns of capital seem to be ramping up within the LPE sector, and so we have run an analysis over the last five years to measure this quantitatively. In addition to share buybacks and tenders, several boards explicitly pay dividends to shareholders as part of returning of capital. Others do not pay a dividend at all (HVPE and **Pantheon International (PIN)**). Paying a dividend has some advantages, which include being highly equitable (applying to all shareholders), as well as being very predictable. The disadvantages include the fact that they are taxed more highly than capital returns (assuming the buyback translates into one!), and they allow the board less flexibility or the ability to directly take advantage of a wide discount. Then again, shareholders can capture exactly the same benefit as a buyback (assuming the shares are held within a tax-wrapper) by re-investing their dividends into shares on a wide discount. Our view is that within the private equity sector, dividends are very much a return of capital, and as such we include dividends paid in our analysis.

The overall picture (see below) shows that quantitatively, capital returns are ramping up at an ever-faster pace. For example, the sector was seeing a monthly buyback of around £20m per month in 2024, which has doubled to around £40m per month in 2026. In fact, PIN fired the starting gun in 2023 towards increased capital returns across the sector, when it executed a £200m reverse auction tender at a c. 35% discount to NAV. As the graph illustrates the pace of capital returns across the sector has moved up significantly since then. The graph will soon head dramatically northwards again, when HVPE completes its scheduled $400m tender, indicated at a 10% discount to NAV. The graph below shows that at the same time, discounts have been on a narrowing trend, other than the spikes in discounts, both a result of President Trump's actions. In April 2025 his announcement on tariffs shook markets, which saw discounts widen. Then again in March 2026, America attacking Iran caused discounts to widen yet again. Unequivocally discounts have narrowed despite these shocks. Whether it is because of the cumulative effect of capital returns or a coincidence, it is hard to be sure.

LPE sector over five years

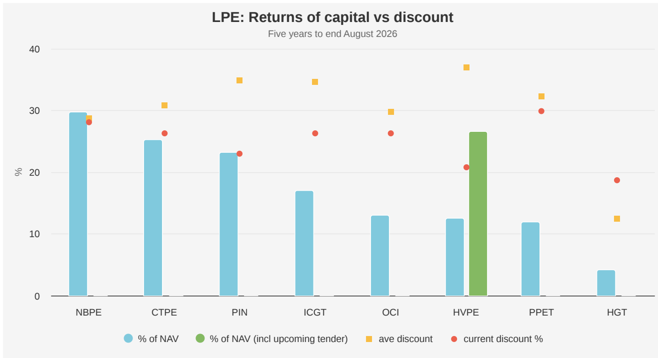


Source: Morningstar, Kepler Partners estimates

What the trust-level evidence shows

Of the eight trusts we have analysed in this report, a total of £1.6bn has been returned to shareholders over the past five years. This represents c. 17% of the combined NAV five years ago. Of course, some have been at the vanguard, and others (such as **HgCapital Trust (HGT)**, which has historically traded at a significant premium to peers) have been slower to return capital. The graph below shows that those which have the widest average discount over the past five years have actually returned the least amount of capital. That said, this is backward looking - current discount levels don't seem to correlate at all with the amount of capital that has been returned over the last five years, with all trusts trading in a 20-30% band. In other words, boards who have returned more capital to shareholders aren't currently being rewarded with a narrower rating than peers.

biggest returners of capital over five years (as % of NAV vs Discount)

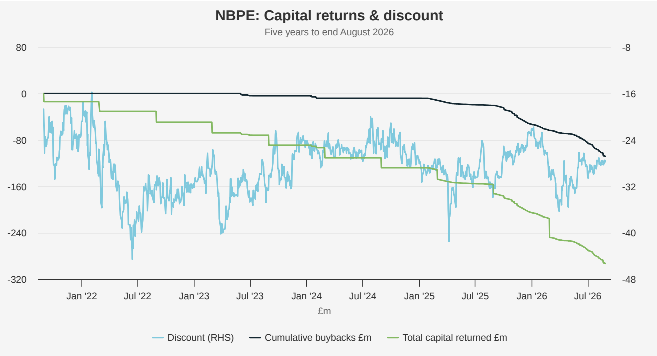


Source: Morningstar, Kepler Partners estimates

Does the way capital is returned matter?

The above analysis looks at all capital returned – whether through buybacks and tenders or through dividends. Does the market distinguish between buybacks or dividends as a method for returning capital? Most trusts apply a combination of both. NBPE has returned the most capital as a % of NAV over the last five years, and the graph above suggests that it has been rewarded for this by a very marginally narrower average discount than the peer group over five years. That said, the graph below doesn't suggest that the cumulative effect of capital returns has had a significant impact on the discount today.

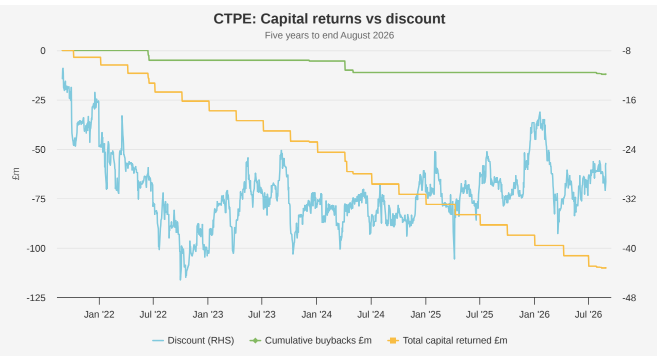
NBPE: capital returns vs discount



Source: Morningstar, Kepler Partners estimates

CT Private Equity Trust (CTPE) has a differentiated strategy targeting smaller private equity backs businesses in the UK, Europe and US buyout markets. It also differentiates itself in the way it returns capital – being only an occasional buyer back of shares, but instead paying a predictable growing dividend which the board view as the primary method of returning capital. It is a Next Generation Dividend Hero, recognising its progressive dividend over the last 14 years. That having been said, despite this regular and consistent return of capital, the discount does not appear to have appreciably narrowed over the five-year period we analyse.

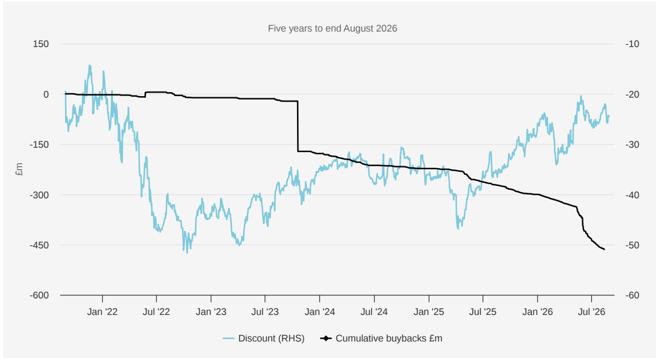
ctpe: capital returns vs discount



Source: Morningstar, Kepler Partners estimates

Past performance is not a reliable indicator of future results.

PIN: capital returns vs discount



Source: Morningstar, Kepler Partners estimates

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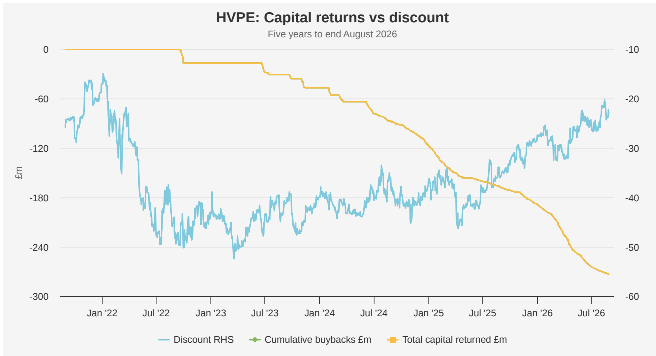
hvpe: capital returns vs discount



Source: Morningstar, Kepler Partners estimates

Conclusion

As we have seen with the likes of HVPE and PIN, discount narrowing has meant that twelve-month share price performance has been impressive (19.3% and 17.2% respectively, to 04/09/2026), despite a relatively muted NAV performance over the same period. Looking at the high-level data, it seemed intuitive to us that these discounts narrowing was a result of the progressively higher rate of buybacks and capital returns we were witnessing across the sector. Having looked at the specifics, it doesn't seem to be the case – most trusts trade at similar discount levels – irrespective of the amount capital they have returned, or the method in which they have returned it. On the other hand, it is hard to argue that returns of capital that reduce the supply of LPE trust shares in the market will not have a positive effect over the long term. If current trends continue, marginal sellers must become fewer and fewer, then discounts will progressively narrow. As such, buybacks and other returns of capital must surely be setting out the foundations of a more sustained recovery in share prices.

If buyers return to the market, then there is a strong possibility that discounts may narrow yet further, especially given tighter "supply" of shares following these returns of capital. Who might those buyers be? Wealth managers – historically hampered by the damaging cost disclosure regulations – may start to return now that those regulations have changed. If private equity deal activity starts to ramp up, this will drive NAV returns and potentially confer enough "FOMO" to wealth manager or retail investors that their relentless appetites for passive investments may turn towards more active exposures (of which private equity is one of the most active). Equally, as we discussed **recently in August**, UK government regulations for pension funds could see a new class of investor seeking out alternative asset classes with a listed fund structure, of which LPE would be a prime beneficiary.

Implications for other alternative asset classes

Our analysis also has implications for other alternative asset class trusts, many of which are also affected by wide discounts and relatively moribund activity levels in the underlying assets. Using the LPE sector as a case study, it is clear that returning capital to shareholders is not a silver bullet for addressing wide discounts, which has important implications for capital allocation policies. If shareholders don't want to go as far as wind a trust up, then it is clear that consideration must be given to the ability of the portfolio to continue to deliver good investment returns into the future. Already, we have started to see board's focus less myopically on discounts, and increasingly looking forward. It was notable that in **Greencoat UK Wind's (UKW)** recent interim results, the board and manager emphasised that as well as the desire to continue to pay a dividend directly linked to UK inflation, there was also a need for disciplined reinvestment, being key to continue delivering long term cashflows to shareholders. As such, there is a clear emphasis within UKW's capital allocation decision-making framework, which recognises the importance of reinvestment to sustain the company's dividend over the long term.

Within the Infrastructure sector, **HICL Infrastructure (HICL)** also appears to be looking at the future with confidence and the portfolio's ability to deliver higher returns. In July, HICL's management team set out a detailed plan that, at a headline level, will gradually increase target medium-term returns from the 7–8% range set at IPO in 2006 to 10%. This builds on their record and is expected to be achieved while maintaining dividend growth and cover. Disposals of maturing assets and excess cashflows will be partly used to increase exposure to a new class of 'enhancer' assets, while c.80% of HICL's portfolio is expected to remain in the familiar 'yielder' and 'grower' categories that have powered its long-term performance. This carefully thought-out plan reflects today's long-term infrastructure opportunity landscape and, in **a recently published note** we look at how HICL's long-term performance includes significant contributions from both higher-returning investments and active management. The revised strategy could, therefore, be seen as a natural evolution of the team's existing strengths and track record in a higher-rate environment.

It is clear to us that the focus has moved on. From initially targeting capital returns as the answer to discounts widening, boards who have the support of shareholders are increasingly projecting more balanced strategies which still include returning capital where possible, but at the same time enabling the manager to reinvest to deliver strong returns for investors who wish to take a longer-term view. Is this because discounts for the likes of UKW or HICL have narrowed (both have seen discounts narrow by more than 10 percentage points in 2026 to date), or it could be that these discounts have narrowed as a result of more focus being paid to the long-term return potential of portfolios? It's hard to tell. However, with boards and shareholders having experienced a long winter of discontent, perhaps it is time to look forward to a glorious summer of strong investment performance being a more dominant driver of narrower discounts.

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