aaru | BREAKWATER

ISSUE NO. 01 · FULL REPORT

Conviction Advantage

Capital Markets Quarterly | Q3 2026

Where institutional conviction is concentrated, how it differs by mandate, and what is most likely to change positioning. The inaugural issue of a quarterly tracker pairing Breakwater's issue-sensing with Aaru's simulation at scale.

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Conviction Advantage

Capital Markets Quarterly · Q3 2026 · Issue No. 01

◆ Core Tracker — a finding reported quarter over quarter. ◇ This Quarter — a topical finding tied to the current market.

FRONT MATTER · THE QUESTIONS WE ASKED

The questions we asked this quarter

Every finding in this report traces to one of twenty questions put to 40,000 modeled investors. The **core tracker** is twelve questions asked the same way every quarter, so the results can be evaluated in how they change over time. It captures the durable architecture of investor conviction: what earns a premium, what triggers a sale, how capital is deployed, and what return the base demands. **This quarter's** eight questions are refreshed each quarter for the live situation: geopolitics, margin pressure, AI, financing conditions, and the IPO calendar.

◆ Section I · Core Tracker *Twelve constant questions*

CONVICTION AND POSITIONING

Q1 Marginal risk appetite right now. Posture from fully risk-off to fully risk-on.

Q5 Proven returns versus future potential. Paying for proven returns versus underwriting unproven scale or narrative.

Q12 Time horizon stance. The horizon currently driving decisions.

WHAT EARNS A PREMIUM, WHAT CAPS IT

Q4 What you would pay up for versus discount. How each of twenty value attributes affects what an investor would pay.

Q6 Highest-value proof point. The single development that would most raise conviction next quarter.

Q7 Biggest multiple constraint. The issue most likely to cap the multiple right now.

BEHAVIOR AND ACTION

Q8 Capital allocation — reward versus penalize. Whether each move earns reward, penalty, or neither.

Q9 Balance-sheet posture you would reward. Aggressive deployment versus preserved capacity and optionality.

Q10 What would move you to sell. How likely each of eleven developments is to force a cut or exit.

CAPITAL DEPLOYMENT

Q2 Incremental sector allocation intent. Where incremental public-equity capital would go across sectors.

Q3 Incremental asset-class allocation. Where incremental capital would go across asset classes.

REQUIRED RETURN

Q11 Required return. How thirteen factors change the return demanded to hold an exposure.

◇ Section II · This Quarter *Eight quarter-to-quarter relevant questions*

MACRO AND MARGIN PRESSURE

Q13 Geopolitical risk — how it changes positioning. How fragmentation, conflict, sanctions, and supply-chain risk change valuation.

Q14 Margin-pressure mitigation. Premium for defending margins against tariffs, energy, and supply-chain disruption.

THE AI LENS

Q15 AI investment — effect on the multiple. How rising AI spend changes the multiple, by company type.

Q16 AI and terminal value. How AI changes the terminal value underwritten, by company type.

Q20 AI infrastructure execution. The issue that would most discount an AI-infrastructure story.

FINANCING CONDITIONS

Q17 Financing conditions — where you would cut. Where to reduce exposure as private-credit terms and borrower fundamentals deteriorate.

VALUATION AND THE IPO CALENDAR

Q18 Valuation proof points. The disclosure that would most bolster a valuation narrative today.

Q19 Marquee IPOs — effect on public comps. How premium private listings change the valuation of public comparables.

HOW THIS REPORT IS BUILT

A repeatable framework for assessing investor conviction at scale

The report combines two functions. Breakwater defines the research agenda: a current read of the questions shaping how the global buy-side is positioned this quarter, translated into a precise instrument. Aaru simulates the results: the instrument is put to a population of modeled investors at a scale and consistency a conventional survey cannot reach. The combined report is a forward-looking measure of investor conviction, systematic in execution and granular enough to show not only what investors value but how different types of capital act on it.

BREAKWATER	AARU	JOINT ANALYSIS
What will matter?	**How will capital respond?**	**What does it mean?**
Issue-sensing · hypothesis formation · instrument design	Investor simulation · mandate and trait decomposition · repeatable quarterly measurement	Signal extraction · market triangulation · issuer implications

The value of the framework is the interaction between the two elements. Used together, they provide a valuable forward-looking view of what will drive investor action.

Together, the two functions produce a read neither could generate alone. The following page sets out the scale of the simulation, how the results are cut by mandate, and the four investor groups it models.

METHODOLOGY, CONTINUED

Built for a reach surveys can't match

The analysis is based on 40,000 simulated investors on the Aaru platform, with a sample size of 10,000 respondents in each of four investor groups. Each modeled investor reasons from a defined mandate, time horizon, and set of portfolio constraints, with region weights reflecting where capital is managed rather than where funds are legally domiciled. The four groups are modeled at equal scale, so the report does not present a pooled **"market" result**: institutional groups are compared directly, while retail is shown separately as a distinct behavioral lens. The methodology is described in the sections that follow.

01

Institutional scale, every quarter

40,000 simulated decision-makers (10,000 in each of four investor types), a reach and consistency a recurring human survey of institutional investors can't practically assemble.

02

Read by mandate, not headline

Every question is cut by investor type and by investor characteristics (mandate, AUM tier, turnover, benchmark sensitivity, sector), so the read reflects how different capital actually behaves.

03

Movement is the signal

Because the instrument and the construction of the modeled population are held constant, quarter-over-quarter change isolates what is actually shifting in the market, the forward-looking read a single snapshot can't give.

THE FOUR INVESTOR TYPES

LONG-ONLY INSTITUTIONAL
Portfolio managers on a multi-quarter horizon; price firm-specific risk most harshly.

SOVEREIGN WEALTH / LARGE LPS
Long-duration allocators with multi-year or multi-decade horizons, greater tolerance for near-term volatility, and a structurally higher willingness to allocate to private markets.

SITUATIONAL-DRIVEN INVESTORS
Event-, catalyst-, and situation-driven capital; shorter-horizon and most likely to act on a single event.

RETAIL (SEPARATE LENS)
More sensitive to momentum, narrative, and market attention; reported alongside, but never blended with, the institutional groups.

A note on region weighting. Simulated investors are weighted by where capital is genuinely managed rather than where funds are domiciled.

EXECUTIVE SUMMARY

Core conclusion: agreement on value, divergence on action.

Institutional investors broadly agree on the characteristics that create durable value but differ materially in how quickly they act when those characteristics appear to weaken.

Across 71 judgments, the three institutional groups converge most on cash conversion, durable organic growth, returns above the cost of capital, and governance quality. The narrowest dispersion in the study is a **one-percentage-point spread** on whether cash-converting earnings deserve a valuation premium. By contrast, the widest dispersion is **63 percentage points** on whether a missed or lowered guide should trigger a sale.

This distinction is important — the areas of consensus can be treated as market-wide valuation anchors. The areas of divergence depend on the composition of the shareholder register and, more specifically, on the behavioral characteristics of the capital that owns the stock.

40,000

modeled investors, four types at equal scale

1 pt

spread on the most-agreed judgment (cash conversion)

63 pts

spread on the most-divergent (sell on a missed guide)

EXECUTIVE SUMMARY · CONTINUED

Investor behavior is better explained by traits than labels

The data indicate that investor categories are useful shorthand, but investor traits are more explanatory. The propensity to sell after a single disappointing quarter rises with portfolio turnover. The additional return demanded for company-specific risk rises with benchmark sensitivity. AUM and stated time horizon show a similar ordering, but these variables are correlated with turnover and are best interpreted as part of a common reactivity factor rather than as independent drivers.

The practical implication is that management teams should evaluate their register by turnover, benchmark orientation, and investment horizon, not simply by conventional holder labels. A high-turnover, benchmark-agnostic register is more exposed to event-driven repricing. A lower-turnover, benchmark-aware register is more likely to absorb a single event but apply greater scrutiny to sustained idiosyncratic risk.

AI is priced on evidence, not narrative

The quarter's clearest thematic result is the distinction between proven and promised AI. Investors assign premiums to semiconductors, infrastructure, and companies that can demonstrate AI-driven revenue, margin, or market-share gains. They discount companies whose AI spending lacks a disclosed return framework and impose the largest terminal-value penalty in the study on business models viewed as substitutable by AI.

The valuation test is therefore economic rather than thematic. Utilization, incremental revenue, margin impact, and payback period matter. General statements of AI ambition do not. For most issuers, the burden of proof is not whether AI is strategically relevant, but whether the economics are visible and credible.

Four additional portfolio-level conclusions

First, the institutional groups are raising required returns for macro, policy, geographic, and business-model risk with relatively little dispersion. The repricing is broad even where it is not fully visible in headline equity indices.

Second, incremental capital is concentrated in public equities and, within equities, in technology. The breadth of that consensus makes technology exposure both a source of support and a potential concentration risk.

Third, investors distinguish between risks already affecting positioning and risks that remain on watch. Governance failures, challenged-sector financing stress, and geopolitical exposure are already prompting action. Maturity walls and refinancing dependence remain more “watched” than “sold,” although smaller and more nimble investors appear to be moving first.

Fourth, the modeled results are broadly consistent with the market evidence reviewed in Current Market Context: strength in AI infrastructure relative to application software, increased sovereign participation in private markets, and deteriorating credit fundamentals despite tight spreads. Apparent differences largely reflect differences in measurement: structural behavior versus real-time sentiment, and forward deployment intent versus current portfolio weights.

This is the first edition of the tracker and should be treated as a baseline rather than a forecast. The value of the framework will increase as changes in conviction can be measured over time.

FIVE ISSUER ACTIONS FOR THE QUARTER

Where the evidence points this quarter

These priorities summarize the observed preferences of the modeled investor base. They are intended as inputs to capital allocation, disclosure, and investor-relations discussions, not as prescriptive recommendations.

01 Anchor the equity case in cash, returns, and governance

WHAT THE EVIDENCE INDICATES
Cash conversion, durable organic growth, returns above the cost of capital, and governance quality are the most consistently rewarded attributes across institutional mandates.

WHERE IT MATTERS
Core financial disclosure and investor communication. Evidence in these areas reaches the broadest segment of the register; narrative without measurable support reaches a narrower audience.

KEY LEADERSHIP QUESTION
Is the company demonstrating the fundamental attributes that support valuation across the full shareholder base, while also addressing the mandate-specific issues that can drive dispersion?

WHAT TO MONITOR
Whether companies with strong cash and returns evidence continue to sustain more consistent valuation support than narrative-led peers.

02 Understand the register by behavior, not category

WHAT THE EVIDENCE INDICATES
Turnover, benchmark sensitivity, and horizon are more useful predictors of reaction than investor-type labels alone.

WHERE IT MATTERS
Earnings communication, guidance policy, investor targeting, and expectations for volatility following a surprise.

KEY LEADERSHIP QUESTION
Does the company understand the turnover and benchmark profile of its register well enough to anticipate the likely response to an earnings miss, change in guidance, or capital-allocation decision?

WHAT TO MONITOR
Changes in the register's turnover and benchmark orientation, which can alter the expected magnitude and duration of event-driven repricing.

03 Quantify AI economics

WHAT THE EVIDENCE INDICATES
Investors reward AI investment when utilization, revenue contribution, margin impact, and payback are disclosed. Capital spending without a return framework is the largest AI-related discount trigger.

WHERE IT MATTERS
CFO-led disclosure, business-unit accountability, and the capital-allocation narrative.

KEY LEADERSHIP QUESTION
Which material AI investments clear the company's hurdle rate under a downside case, and can investors distinguish those investments from projects with uncertain economics?

WHAT TO MONITOR
Whether quantified reporting changes investor willingness to pay after several reporting periods and whether adoption-layer companies begin to close the valuation gap with infrastructure providers.

FIVE ISSUER ACTIONS · CONTINUED

04 Assume the burden of proof on M&A and high-expectation valuations

WHAT THE EVIDENCE INDICATES	M&A-led growth is the only attribute that is net-discounted, while “valuation already too full” is the most frequently cited constraint on a higher multiple.
WHERE IT MATTERS	Capital allocation, transaction communication, and the articulation of expected returns.
KEY LEADERSHIP QUESTION	*Does the capital-allocation case lead with expected returns, integration risk, and evidence of value creation rather than strategic rationale alone?*
WHAT TO MONITOR	Whether additional operating evidence can move valuation in companies where expectations are already high and narrative has limited incremental value.

05 Address watched risks before they become active sell triggers

WHAT THE EVIDENCE INDICATES	Investors are monitoring maturity walls, refinancing dependence, governance, and geopolitical exposure. Some of these risks have not yet translated into broad selling.
WHERE IT MATTERS	Treasury, liquidity planning, risk oversight, and forward-looking disclosure.
KEY LEADERSHIP QUESTION	*Is the company providing enough visibility on financing and risk mitigation before investor concern shifts from monitoring to position reduction?*
WHAT TO MONITOR	Whether smaller, higher-turnover investors begin reducing exposure, which may precede action by larger, longer-duration holders.

How to use these. Every line reports market behavior, what the base rewards and watches. The key leadership question is one a company asks itself. The actions are starting points for a board and management conversation.

The Findings

Broad agreement on what is fundamentally valuable; divergence by mandate on how to act on it. The same structure, nine times.

THE FINDINGS · HOW TO READ WHAT FOLLOWS

One structure, read nine ways

The nine findings below share a single underlying structure, and naming it up front makes the rest easier to read. Across every dimension this report measures (what earns a valuation premium, what triggers a sale, what investors reward you for doing, how AI is priced, where capital leans) the institutional base shows the same pattern: **broad agreement on what is fundamentally valuable, and divergence by mandate on how to act on it.** Investors agree, almost unanimously, that cash-converting earnings deserve a premium and that a governance breakdown deserves an exit. They disagree, sometimes completely, on whether a single missed quarter is worth selling.

The agreement tells a public company what its entire holder base will reward or punish; the divergence tells it which signals depend on the composition of that base, the turnover, horizon, and benchmark sensitivity of the capital that holds the stock. The findings are sequenced to move from the durable architecture of this investor base toward this quarter's live situation. The first six (consensus, the divergences, what accelerates and what deters valuation, what investors reward a company for doing with its capital, and where incremental capital leans) are the structural reads, held consistent each quarter so their movement can be tracked. The last three, the AI lens, the read on a record quarter of marquee IPOs, and the forward map of catalysts and risks, lean on this quarter's specific conditions.

Every finding closes the same way, with a five-part read of what it means for a public company: for valuation, for disclosure, for capital allocation, for the investor-engagement message, and for the signal to monitor as the tracker builds. Those implications describe observed investor behavior, what companies in a given position tend to find, rather than prescribing action. That distinction is deliberate.

◆ CORE TRACKER — Marks a finding whose movement we report quarter over quarter, the structural reads held constant to build the tracker.

◇ THIS QUARTER — Marks a finding from this quarter's topical questions, connected to the signal-to-monitor line that closes each finding.

THE NINE FINDINGS

◆ **1 · The Consensus**	Where the base converges, and how tightly
◆ **2 · The Divergences**	It is not the investor type, it is the trait
◆ **3 · Valuation Accelerants**	What earns a premium, and how widely
◆ **4 · Valuation Deterrents**	What caps the multiple, what forces the exit
◆ **5 · What Investors Reward You for Doing**	The capital-allocation moves that earn credit
◆ **6 · Where Incremental Capital Leans**	Concentration at the core, diversity by mandate
◇ **7 · The AI Lens**	Pays for proven AI, discounts promised AI
◇ **8 · Marquee IPOs**	A record IPO quarter and the read on comps
◇ **9 · Catalysts, Risks & Disconfirmers**	What would move the market's stance from here

FINDING 1 · THE CONSENSUS

◆ CORE TRACKER

The institutional base agrees more on the foundations of value

Despite their differences in mandate and horizon, the three institutional groups agree on a great deal, and that agreement is the most actionable signal in the study: it identifies what the institutional base will reward or punish regardless of who holds the stock. The relevant question is not whether they agree but how tightly, and where.

Across 71 distinct valuation, behavioral, and risk judgments, the three institutional groups land within 10 percentage points of one another on a fifth of them and within 15 points on a third. Divergence wider than 30 points appears on roughly a fifth. The base is neither monolithic nor fragmented: it converges on a specific set of fundamentals and diverges on a separate, equally identifiable set. Identifying which is which is the value of the finding.

The tightest agreement clusters in three areas. The first is cash and quality: earnings that fully convert to cash show a one-point spread across the three groups, the most-agreed judgment in the study, with durable organic growth, free-cash-flow generation, and proven-economics AI close behind. The second is systemic-risk repricing: required-return demands for AI disruption, policy risk, geographic exposure, and business-model uncertainty are near-uniform, because risks that affect every portfolio equally offer nothing to differentiate on. The third is governance: a board-quality or governance breakdown reprices return across the base alike.

Where the base diverges is equally structured, and it leads directly to the next finding. The widest divergence in the study is what triggers a sale on a missed guide: a 63-point spread between the most and least reactive institutional groups. The tightest agreement and the widest divergence come from the same investors, 62 points apart.

> *Investors agree on what they value, and have a range of views on what makes them act.*

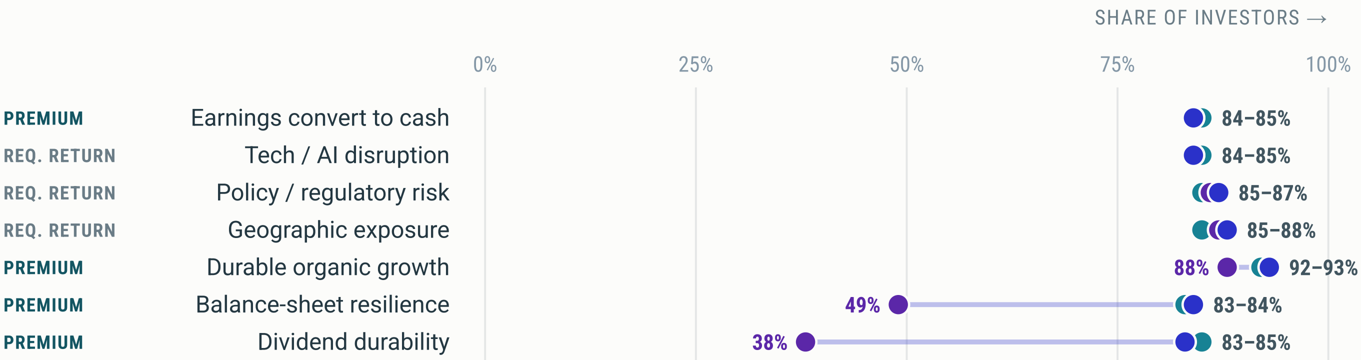
FINDING 1 · THE CONSENSUS

Investors agree on what they value — and split on what makes them act.

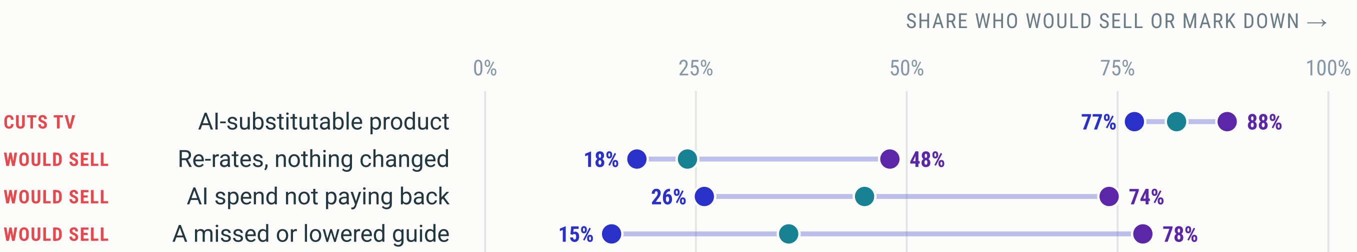
Each row compares the three institutional groups on one measure. What matters is the gap between them, not the row's height. The tag at left names what's being measured.

● Long-Only ● Situational-Driven ● SWF / LPs

A · WHAT THEY'LL PAY UP FOR, AND HOW THEY PRICE RISK



B · WHAT MAKES THEM SELL OR MARK DOWN



Aaru × Breakwater · Q3 2026 · 40,000 modeled investors (institutional only); premiums Q4, required return Q11, terminal value Q16, sell triggers Q10

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION

The agreed fundamentals of cash conversion, proven organic growth, and governance quality function as table stakes. A company that demonstrates them is valued consistently across its holder base; a company that fails them is discounted by every investor type.

DISCLOSURE

Agreement is tightest on cash-backed quality and weakest on narrative. Disclosure led by cash conversion, returns on capital, and governance substance reaches the broadest audience; narrative-weighted disclosure reaches only the segment already inclined to reward it.

CAPITAL ALLOCATION

Because the premium on cash conversion and the penalty on weak governance are near-universal, allocation choices that reinforce both are rewarded across the base. Mandate-specific choices are rewarded only by the segments predisposed to them.

INVESTOR ENGAGEMENT

On the consensus fundamentals, a single message reaches the whole holder base without tailoring. Tailoring matters on the divergent dimensions, not on these.

SIGNAL TO MONITOR

Whether the consensus set widens or narrows: whether the premium on cash conversion strengthens, indicating a flight to quality, or agreement loosens, indicating rotation. A widening consensus signals a tightening market.

FINDING 2 · THE DIVERGENCES

◆ CORE TRACKER

Investor behavior is better explained by traits than labels

The 63-point spread on selling after a missed guide is initially easy to explain in categorical terms: situational investors react quickly, while sovereign and long-duration capital is more patient. The underlying data support a more precise interpretation. The primary drivers are portfolio turnover, time horizon, AUM, and benchmark sensitivity.

The response to a missed guide forms a clear gradient when investors are grouped by turnover. Very-high-turnover investors are roughly three times as likely to sell as buy-and-hold investors, with intermediate turnover groups falling in sequence. A similar pattern appears by horizon, with the share inclined to sell declining from 70% among investors with sub-three-month horizons to 18% among investors with five-year horizons.

These variables are correlated. Larger investors often have longer horizons and lower turnover. The evidence is therefore best understood as a single reactivity factor rather than as several independent explanations. Investor-type averages sit along this same gradient: situational-driven investors are more reactive because they tend to have higher turnover and lower benchmark sensitivity, not because the category itself has unique explanatory power.

The contrast with permanent impairment is instructive. Turnover strongly explains reactions to a missed guide, but the gradient largely disappears when the trigger is a governance breakdown. Permanent impairment is treated as permanent across mandates.

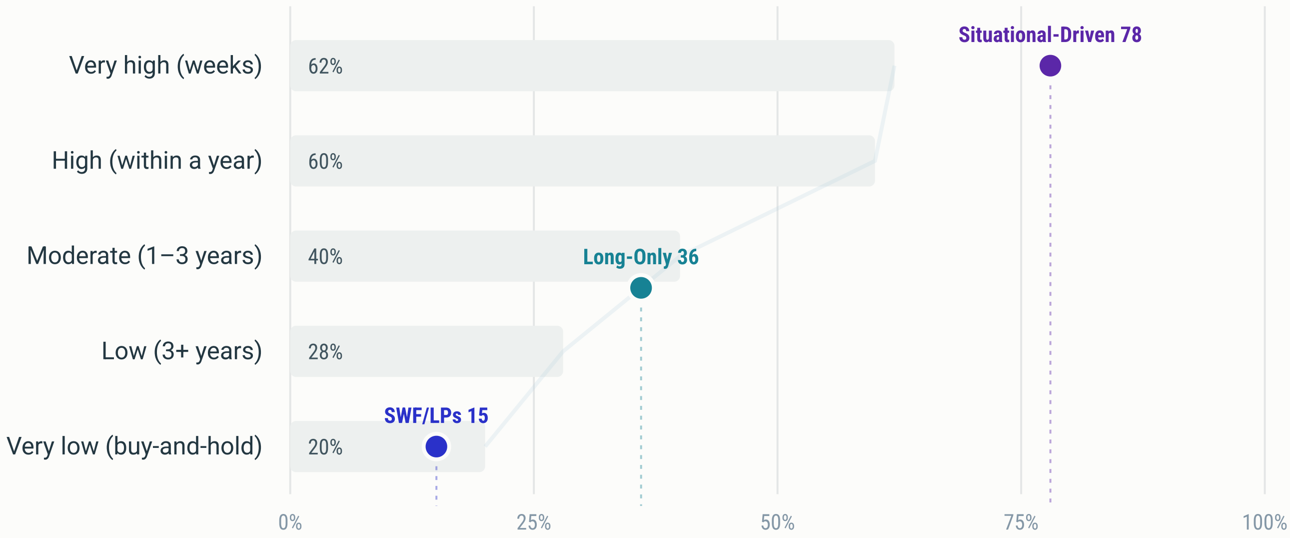
Benchmark sensitivity explains a separate dimension of behavior. Benchmark-aware investors demand a higher return for idiosyncratic risks that can cause sustained underperformance relative to an index. Absolute-return investors are less constrained by benchmark risk, but more willing to trade around discrete events.

> *Situational-driven investors react because they are high-turnover and benchmark-agnostic, not because of some essence of the category.*

FINDING 2 · THE DIVERGENCES

Reactivity tracks turnover, not investor type.

The curve is exit/trim rate by turnover band. Each investor group's marker sits at the turnover its average behavior implies, showing the group averages are a function of turnover, not category.



Aaru × Breakwater · Q3 2026 · institutional investor groups; markers = audience means on the same axis

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION The expected magnitude of event-driven repricing depends on the turnover and benchmark profile of the actual register. High-turnover, absolute-return capital is more likely to react to a single event; lower-turnover, benchmark-aware capital may tolerate the event but scrutinize sustained company-specific risk.

DISCLOSURE A high-turnover register places greater value on cadence, consistency, and surprise management. A benchmark-sensitive register is more focused on the durability of margins, customer concentration, governance, and other idiosyncratic exposures.

CAPITAL ALLOCATION Actions that reduce company-specific risk may lower the required return demanded by benchmark-aware holders. For high-turnover holders, execution consistency may matter more than the strategic merits of any single allocation decision.

INVESTOR ENGAGEMENT Engagement should be calibrated to the register's behavioral characteristics. Frequent, event-oriented communication is more relevant to high-turnover investors; risk containment and long-term return evidence are more relevant to benchmark-sensitive holders.

SIGNAL TO MONITOR A steeper turnover-reactivity gradient would imply a more fragile market response to earnings surprises. Rising required returns among benchmark-sensitive investors would indicate greater concern about idiosyncratic risk.

FINDING 3 · VALUATION ACCELERANTS

◆ CORE TRACKER

The highest premium will accrue to growth quality and cash returns

The ranking of 20 value attributes shows a consistent pattern: the attributes that command the broadest valuation premium also generate the tightest institutional agreement.

Durable organic revenue growth ranks near the top, with more than nine in 10 institutional investors willing to pay a premium. AI-enabled growth supported by proven economics follows closely. Return on invested capital, margin expansion, free-cash-flow generation, and management credibility form the next group.

As the ranking moves lower, the average premium declines and the dispersion across mandates generally increases. Balance-sheet resilience and dividend durability remain valued by much of the institutional base, but the strength of the premium depends more heavily on investor horizon, mandate, and fund size.

Dividend durability illustrates the point. The willingness to pay rises almost monotonically with AUM, from **47% among managers with less than $1 billion to 86% among managers with more than $1 trillion**. The response is also stronger among income- and yield-oriented mandates, which cut across the report's headline investor categories.

At the bottom of the ranking is M&A-led growth. Only about one-quarter of the institutional base would pay a premium for it, and it is the only attribute that is net-discounted. Investors appear to distinguish sharply between growth generated organically and growth acquired through transactions.

> *The most-rewarded attributes are also the most tightly agreed.*

FINDING 3 · VALUATION ACCELERANTS

The most-rewarded attributes are also the most agreed.

% of each institutional investor group who would pay a premium, ranked high to low. The spread widens from the top tier to the bottom tier; within a tier it varies row to row.

Aaru × Breakwater · Q3 2026 · all 20 value attributes (institutional only); M&A is the one net-discounted attribute

FINDING 3 · VALUATION ACCELERANTS

◆ CORE TRACKER

What the premium ranking means for a public company

The shape of the accelerant ranking, broadest premiums and tightest agreement at the top, thinning and fracturing toward the bottom, resolves into a consistent read for how a company is valued, what it discloses, and how it engages a mixed register.

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION	Durable organic growth, cash conversion, and return on invested capital should attract the broadest support. Dividends and balance-sheet resilience are more sensitive to mandate and holder composition.
DISCLOSURE	The core equity narrative should lead with high-agreement fundamentals. Lower-ranked attributes should be emphasized selectively to the investor segments most likely to value them.
CAPITAL ALLOCATION	Reinvestment that strengthens organic growth and returns should receive broad credit. Dividend policy, liquidity posture, and other mandate-specific choices should be aligned with the composition of the register.
INVESTOR ENGAGEMENT	A common message can address the top-tier attributes. More targeted communication is appropriate for dividends, balance-sheet posture, and other areas where mandate dispersion is wider.
SIGNAL TO MONITOR	Reordering within the premium ranking would provide an early indication of changing risk appetite. Wider dispersion in the middle of the ranking would increase the importance of holder mix.

FINDING 4 · VALUATION DETERRENTS

◆ CORE TRACKER

Multiple ceilings and sell triggers are distinct risks

Valuation deterrents fall into two categories: factors that limit willingness to pay and factors that cause investors to reduce or exit a position. The distinction matters because the first constrains upside while the second can accelerate downside.

The most frequently cited constraint on a higher multiple is valuation itself. “Already fully valued” ranks first, followed by concerns about the durability of growth and AI investment without evidence of return. In each case, the deterrent is the inverse of the corresponding accelerant: investors will not pay for growth they view as unsustainable, AI economics they cannot verify, or a valuation that already discounts the expected outcome.

Sell triggers have a different distribution. Governance failure, loss of pricing power, and returns below the cost of capital generate high exit rates across all institutional groups. These are viewed as evidence of permanent or structural impairment.

By contrast, a single missed guide, AI spending that is not yet paying back, and a contested capital-allocation decision create much wider dispersion. These developments may be significant, but whether they justify immediate action depends on the investor's horizon and turnover.

M&A sits at the intersection of the two categories. It is the only growth attribute that the base net-discounts, and tolerance declines as fund size increases. The share willing to pay for M&A-led growth falls from approximately **35% among the smallest managers to 20% among the largest**. Large holders therefore appear to apply the highest burden of proof to transaction-led growth.

> *The base agrees almost entirely on what permanently impairs value, and diverges almost entirely on whether a single event warrants action.*

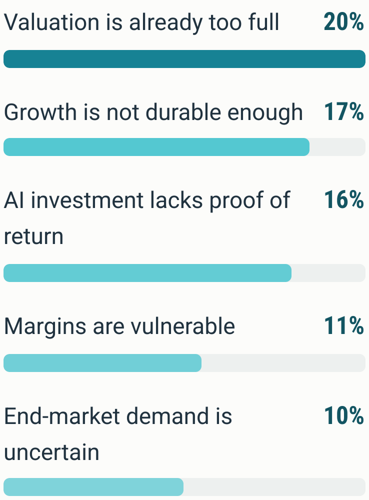
FINDING 4 · VALUATION DETERRENTS

What caps the multiple, and what forces the exit.

Chart A: the single biggest constraint on a higher multiple. Chart B: the share of each investor group very likely to exit or trim, with universal triggers (tight) above and mandate-specific (wide) below.

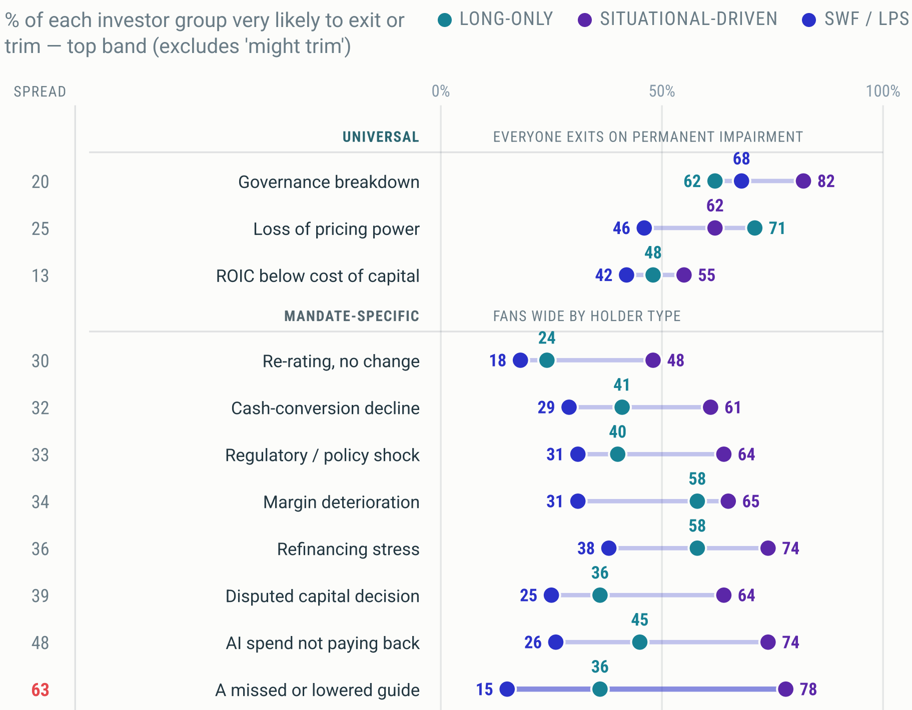
A · WHAT CAPS THE MULTIPLE

Biggest single constraint on a higher multiple



B · WHAT FORCES THE EXIT

% of each investor group very likely to exit or trim — top band (excludes 'might trim')



Aaru × Breakwater · Q3 2026 · institutional only; the missed-guide spread (63 pp) is the widest in the report

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION

Governance failure and erosion of pricing power should affect valuation across the register. A single missed quarter should have a more concentrated effect among reactive holders. For high-multiple companies, incremental evidence is more likely to support the valuation than additional narrative.

DISCLOSURE

Governance quality, pricing-power durability, growth sustainability, and AI payback are the most relevant areas for reducing broad valuation discounts.

CAPITAL ALLOCATION

M&A carries a default burden of proof. Capital allocation that protects pricing power, returns, and governance integrity should be more defensible across mandates.

INVESTOR ENGAGEMENT

Universal impairment risks should be addressed broadly. Event-specific concerns should be discussed with the investor segments most likely to act on them.

SIGNAL TO MONITOR

A rising share citing 'already fully valued' would increase de-rating risk. A higher share citing unproven AI returns would indicate more demanding payback scrutiny. The most important transition would be a mandate-specific trigger broadening into a universal one.

FINDING 5 · WHAT INVESTORS REWARD YOU FOR DOING

◆ CORE TRACKER

Investors reward focus and capital return; spending must earn credibility

The preceding findings describe the corporate attributes investors value. This section addresses the actions they reward. Across the capital-allocation menu, the base shows a preference for focus, balance-sheet discipline, and direct capital return. It is more cautious on expansionary spending.

Portfolio simplification, dividend increases, share repurchases, and divestitures or spin-offs form the leading group, with net reward scores separated by only a few points. These actions either sharpen the business or return capital to shareholders. Debt reduction and liquidity preservation follow.

At the bottom of the ranking are the two principal forms of external or discretionary spending. M&A is only modestly net-positive. Strategic capital expenditure is the most contested action in the study, with approximately equal shares inclined to reward and penalize it.

The response differs by mandate. Situational-driven investors are most supportive of catalyst-producing actions such as buybacks, simplification, and divestitures. They are less supportive of dividend increases. Long-only investors and sovereign or large-LP allocators are more likely to reward dividends, liquidity, and debt reduction.

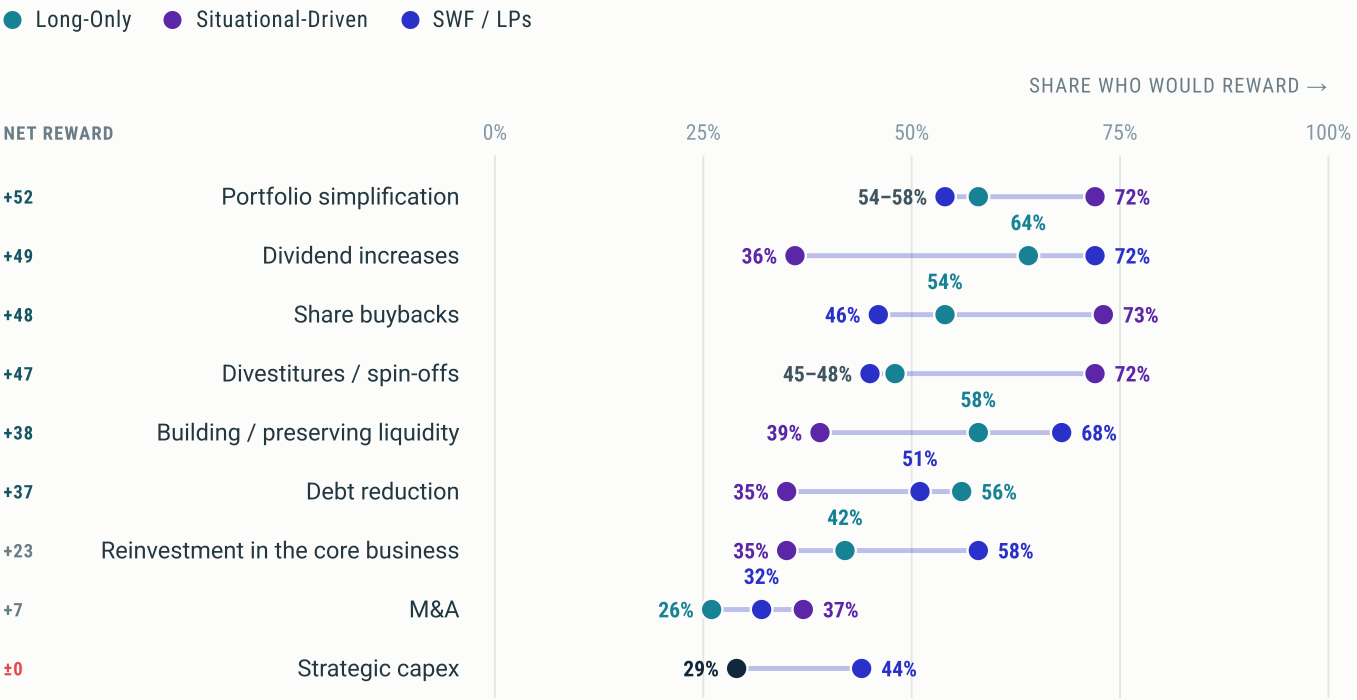
The broadest common signal is skepticism toward capital spending without a defined return profile. The same principle that applies to AI spending applies to capex more generally: the investment case is stronger when the expected return, timing, and downside risks are explicit.

> *Investors reward focus and capital return, and make spending prove itself.*

FINDING 5 · WHAT INVESTORS REWARD YOU FOR DOING

Investors reward focus and capital return — and make spending prove itself.

Figure at left is net reward (reward minus penalize), the ranking metric. Dots are the share of each institutional investor group that would reward the move.



Aaru × Breakwater · Q3 2026 · institutional only; capex is the one contested move (reward ≈ penalize)

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION Simplification and capital return receive the broadest support. M&A and strategic capex require a clearer return case before investors assign credit.

DISCLOSURE Companies undertaking material capex should disclose expected capacity, utilization, payback, and return thresholds. Strategic rationale alone is unlikely to be sufficient.

CAPITAL ALLOCATION A mixed register is most likely to support actions that improve focus or return capital. Dividend versus buyback decisions should be considered in the context of the mandate mix.

INVESTOR ENGAGEMENT Companies returning capital can lead with the action itself. Companies spending capital should lead with expected returns, risk controls, and accountability.

SIGNAL TO MONITOR Easing skepticism toward capex would suggest a more risk-tolerant market. Increasing skepticism would indicate a stronger preference for capital preservation and distribution.

FINDING 6 · WHERE INCREMENTAL CAPITAL LEANS

◆ CORE TRACKER

Consensus is concentrated at the top; diversification occurs by mandate

Incremental capital shows the same pattern as the valuation results: broad agreement on the primary destination and greater dispersion below it.

These measures represent relative deployment tilts, not portfolio allocations. They show the share of each investor group placing incremental capital in a high deployment band and should not be summed to 100%.

At the asset-class level, public equities attract the broadest interest from every institutional group. Below that, preferences diverge. Sovereign wealth funds and large limited partners show the strongest appetite for private equity and real assets. Situational-driven investors tilt more heavily toward high-yield and leveraged credit. Retail shows a higher preference for cash than any institutional group.

At the sector level, technology is the only area with broad high-band demand across the investor base. No other sector is close. This concentration is supportive for technology valuations, but the uniformity of the positioning also raises the risk of crowding.

The private-market tilt is partly a function of scale rather than investor category. Appetite for private equity rises materially with AUM, from approximately **4% in the high deployment band among managers below $50 billion to 12–14% among managers above $250 billion**. Public-equity concentration also rises around the $50 billion threshold.

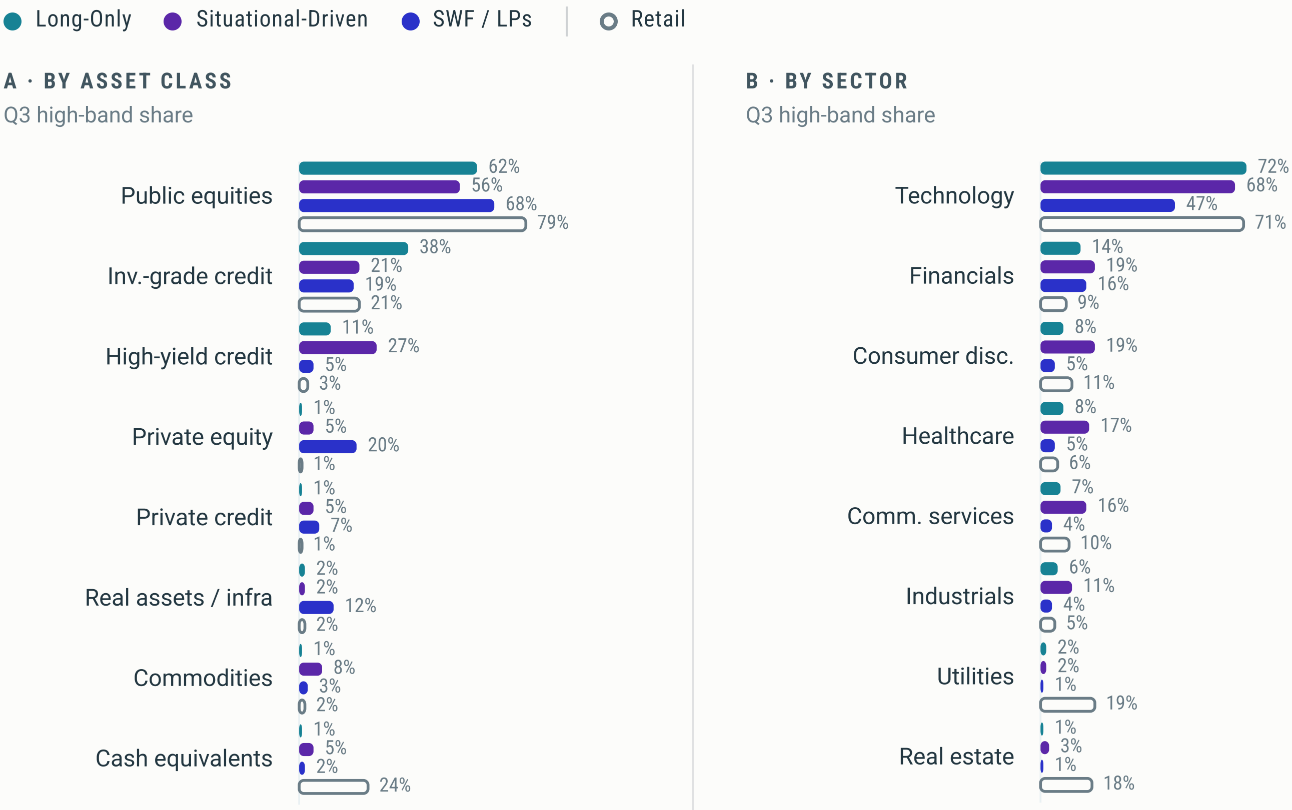
The key portfolio-level conclusion is that the marginal dollar is concentrated in public equities and technology, while diversification beyond that core reflects mandate and scale. A consensus this concentrated can be durable, but it is also more sensitive to disappointment.

> *Everyone crowds equities and tech, then diversifies by mandate.*

FINDING 6 · WHERE INCREMENTAL CAPITAL LEANS

Everyone crowds equities and tech — then diversifies by mandate.

High-band share: the share of each investor group directing incremental capital to a high deployment band. A relative tilt, not a portfolio allocation; does not sum to 100.



Aaru × Breakwater · Q3 2026 · all four investor groups (Retail set apart)

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION

Technology-sector companies benefit from the broadest marginal demand this quarter; companies outside it compete for a thinner incremental dollar. For companies seeking sovereign or large-LP capital, that pool's willingness to deploy across private markets and sectors makes it the most accessible buyer outside the crowded trade.

DISCLOSURE

Outside the consensus sectors, the incremental institutional dollar is harder to attract on sector momentum alone. Disclosure establishing quality on the universally rewarded fundamentals matters more for companies without a sector tailwind.

CAPITAL ALLOCATION

This is more a market-structure signal than a company-action one. It suggests that companies positioned to attract long-horizon and sovereign capital, through the governance and durability those allocators reward, gain access to the one pool actively diversifying away from the crowded trade.

INVESTOR ENGAGEMENT

A technology company engages a base where demand is strong but crowded, so fundamentals are the differentiator. A company outside technology finds sovereign and large-LP capital, and situational-driven investors' sector breadth, the more productive engagement focus.

SIGNAL TO MONITOR

Whether high-band technology demand broadens to other sectors, indicating rotation, or intensifies, indicating a more crowded and more fragile consensus; and whether the sovereign tilt to private markets strengthens.

FINDING 7 · THE AI LENS

◇ THIS QUARTER

The market pays for demonstrated economics and discounts unproven claims

AI appears across six questions in the instrument, but the responses resolve into a single valuation rule: **investors reward demonstrated economics and discount unquantified ambition.**

At the multiple level, the institutional base is most willing to pay for the infrastructure layer, semiconductors and companies directly benefiting from the buildout. It is less willing to pay for enterprise adopters and application-layer software until the return on investment is visible. The market is funding the enabling layer and reserving judgment on the adopters.

The terminal-value results are more pronounced. Roughly four-fifths of the institutional base raises terminal value for companies demonstrating AI-driven gains in market share or margins. An even larger share lowers terminal value when a company's core product appears substitutable by AI. The technology is therefore both a material source of upside and the largest structural threat in the study. The determining factor is evidence.

This judgment varies little by fund size. The penalty applied to AI-substitutable business models and the demand for proven economics are consistent across AUM tiers. Investor type matters more for behavioral responses than for the fundamental pricing of AI.

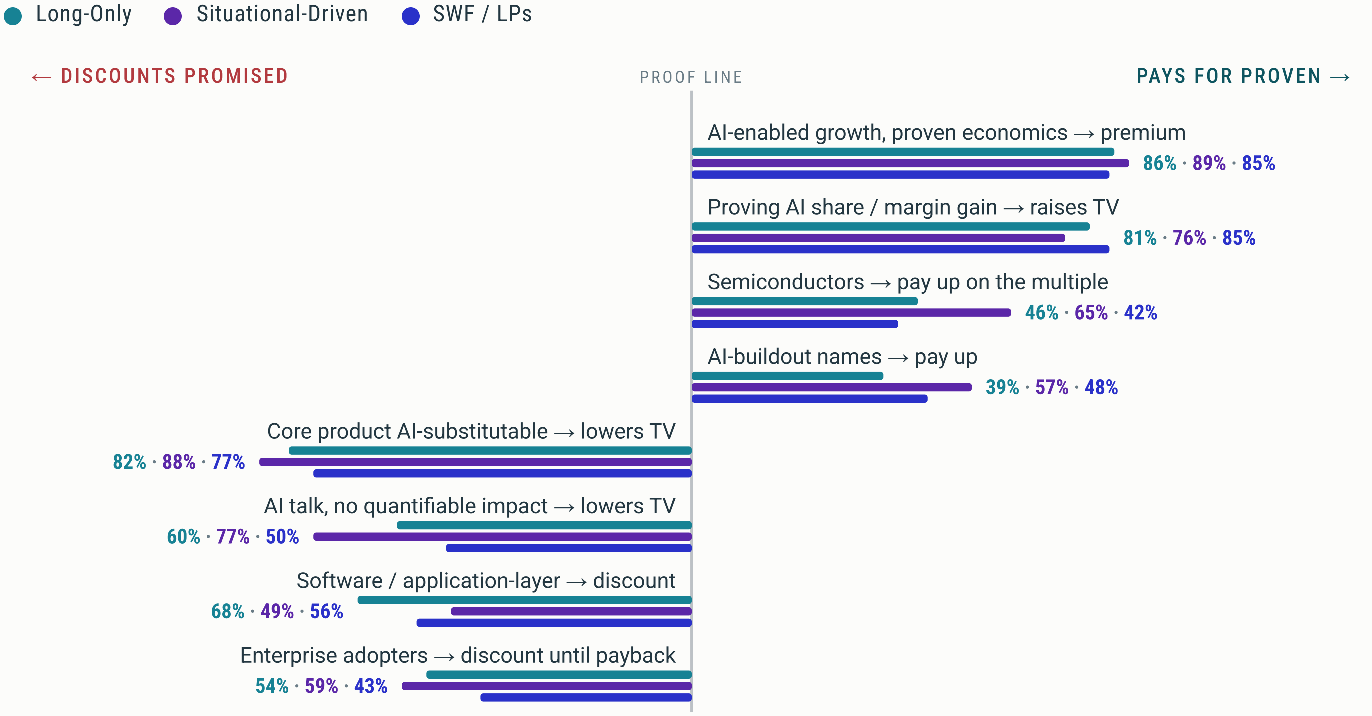
Retail provides a distinct contrast. Retail investors are more likely to identify AI monetization as the single most important proof point and are more responsive to the narrative itself. Institutional investors require the numbers: utilization, revenue contribution, margin effect, and payback.

> *The same technology is the largest terminal-value creator and the largest terminal-value threat, split by evidence.*

FINDING 7 · THE AI LENS

The institutional base pays for proven AI and discounts promised AI.

Bars show all three institutional groups. Right of the line pays up or raises terminal value; left discounts. Proven-economics rows are near-universal; the infrastructure rows show the situational-driven tilt.



Aaru × Breakwater · Q3 2026 · % of each institutional investor group

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION

Proven AI economics command one of the strongest premiums in the study. Unquantified AI claims reduce credibility, while perceived product substitution creates the largest terminal-value risk.

DISCLOSURE

Investors want operating evidence: utilization, incremental revenue, margin contribution, and payback period. Capital spending without these metrics is the principal discount trigger. In the absence of evidence, limited commentary may be preferable to unsupported enthusiasm.

CAPITAL ALLOCATION

AI capex is not inherently penalized. The discount arises when spending lacks a measurable return framework or accountability. The burden of proof is higher for adopters than for infrastructure providers.

INVESTOR ENGAGEMENT

The most effective AI message is an economic one. Companies facing substitution risk should address it directly and explain how product relevance, pricing, and unit economics are being defended.

SIGNAL TO MONITOR

The key next step is whether valuation support broadens from infrastructure to adopters as more companies disclose realized returns. A second signal is whether undisclosed AI payback becomes more or less prominent as a valuation constraint.

FINDING 8 · MARQUEE IPOS

THIS QUARTER

Institutions tighten underwriting standards; retail extrapolates the comp

The current IPO environment provides a useful test of how investors incorporate premium private-market valuations into public-market frameworks. The institutional response is disciplined rather than reflexively bullish.

The most common institutional answer is to hold the existing valuation framework. **Thirty percent view IPO pricing as an unreliable comparable** until the company has seasoned in the public market. This response is led by long-only investors, at 37%, and sovereign or large-LP allocators, at 41%.

A further 27% would become more selective and pay a premium only for public companies with superior disclosure and cash-flow characteristics. Only 19% would directly raise their willingness to pay for comparable public equities. In other words, a high-profile IPO tends to raise the underwriting bar for institutions rather than the valuation ceiling.

Retail responds differently. **Forty-four percent of retail investors would increase their willingness to pay** for public comparables following a premium marquee listing, more than three times the long-only response of 13%. Situational-driven investors focus on a separate mechanism: 26% view a heavy issuance calendar as a potential source-of-funds pressure on existing holdings.

The quarter's IPO activity provided an extreme real-world test, including the SpaceX transaction and a record quarter for proceeds. The investment implication is not that every premium listing validates public comparables. It is that a concentrated issuance cycle can simultaneously support narrative valuations, tighten institutional selection standards, and create rotation pressure on incumbent holdings.

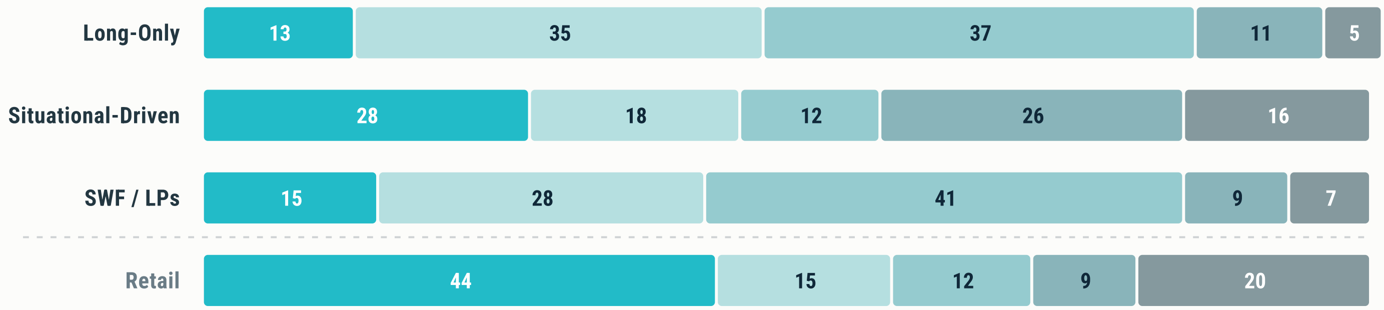
THE QUARTER DELIVERED THE EXTREME TEST

SpaceX priced in June and began trading on Nasdaq. Its **$75 billion** raise was the largest IPO in history, at roughly a $1.7 trillion valuation, and the stock rose 19% on its first day; that raise alone exceeded every US IPO of the prior two calendar years combined. The second quarter set a record for IPO proceeds at nearly $105 billion, with nine other billion-dollar listings, and OpenAI and Anthropic are lining up behind it. The late-cycle signal deserves equal weight: strategists drew dot-com parallels ahead of the listing, and independent fair-value work put the company well below its IPO price, citing a tiny float and index-inclusion demand rather than fundamentals. A record issuance quarter that pulls capital toward a handful of mega-listings is exactly the crowded, late-cycle marker worth watching rather than celebrating.

FINDING 8 · MARQUEE IPOS

Institutions tighten the screen on hot IPOs; retail pays up.

Each investor group's response to premium marquee IPOs, as a share of that group (rows sum to ~100%). The 'raise willingness to pay' segment is highlighted; Retail is reported as a separate lens, set apart below.



- Raise willingness to pay (comparable growth / scarcity)
- Grow more selective: superior disclosure & cash flow only
- Hold framework: not a reliable comp until seasoned
- Expect pressure on incumbents (source of funds)
- Lower WTP if new listings expose better economics

Aaru × Breakwater · Q3 2026 · all four investor groups; Retail set apart

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION — A marquee IPO is unlikely to lift public-company multiples across the institutional base without operating evidence. It can have a stronger impact where retail participation is high.

DISCLOSURE — Institutions are more likely to reward listed peers that can demonstrate superior cash flow, disclosure quality, and unit economics. Attention alone is insufficient.

CAPITAL ALLOCATION — Companies at risk of becoming a source of funds for new issuance need to defend the position through execution and comparative economics, not through association with the listing theme.

INVESTOR ENGAGEMENT — Institutional messaging should focus on the company's own cash generation and returns. Comp-based excitement is more relevant to narrative-sensitive investors.

SIGNAL TO MONITOR — Watch whether institutional investors begin to use marquee IPO pricing as a comparable after the new listings season. A narrowing gap between retail and institutional responses would indicate that the comp effect is becoming more fundamental.

FINDING 9 · CATALYSTS, RISKS & DISCONFIRMING INDICATORS

◇ THIS QUARTER

Fundamental delivery builds conviction; financing risks remain the key watch area

The forward-looking results separate into three questions: what builds conviction, what is already changing positioning, and what investors are monitoring but have not yet acted on broadly.

The catalysts that strengthen conviction are fundamental and distributed. Organic revenue growth quality ranks first, followed by free cash flow, return on capital, and management execution. No single catalyst dominates. The evidence suggests that valuation support is built through a cluster of operating proof points rather than through one headline event.

The risks already raising required returns are also clear. Governance and board quality, business-model uncertainty, geographic exposure, policy risk, and AI disruption receive broad and relatively consistent penalties. Investors are also reducing exposure to structurally challenged sectors and to companies that depend on inexpensive refinancing.

THE DEFENSIVE FLIP SIDE · WHAT EARNS A PREMIUM WHEN MARGINS ARE SQUEEZED

80%	**77%**	**75%**
Contractual cost pass-through	Demonstrated pricing power	Low energy & logistics intensity

Dispersion is limited; this is one of the more consensual reads in the study. When macro risk rises, investors pay a premium for companies that can defend margins through structure rather than forecast accuracy.

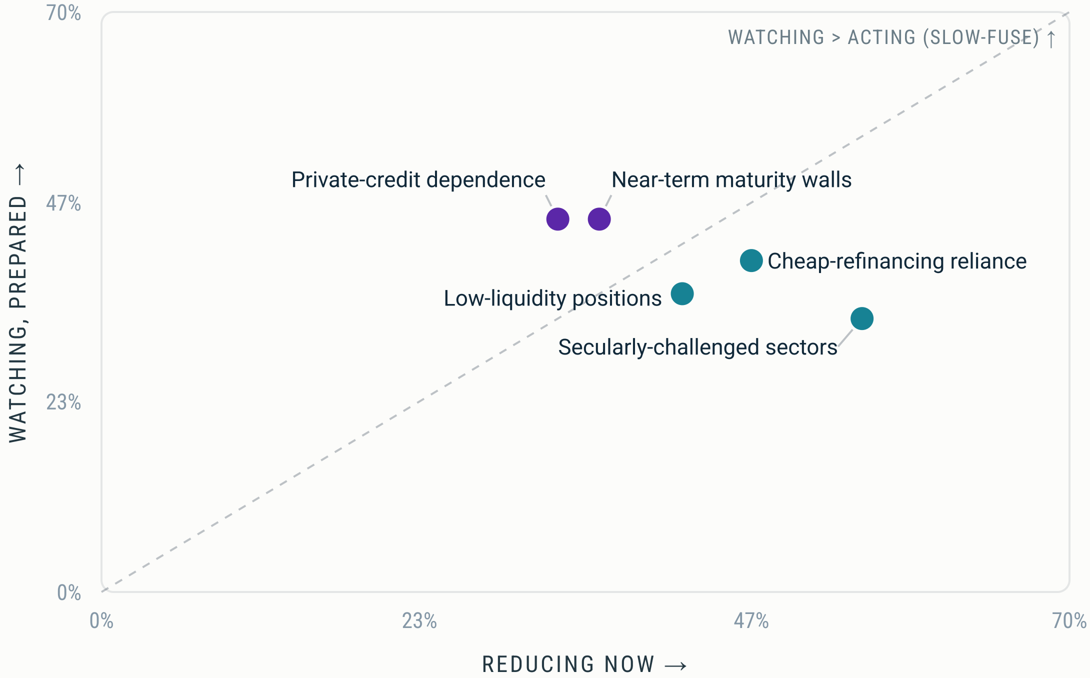
The most useful forward signal is the gap between "reducing now" and "watching, prepared to act." Near-term maturity walls and dependence on private credit show high monitoring but lower current selling. Smaller managers appear to move first: **46% of sub-$1 billion managers are reducing private-credit exposure, compared with 22% of managers above $1 trillion**.

The financing and technology risks may reinforce one another. Software de-rating in public equities is also appearing in software credit, where leveraged-loan prices have weakened and maturities are approaching. A crowded technology position may therefore be vulnerable to a combined earnings, valuation, and financing shock.

FINDING 9 · CATALYSTS & RISKS

What the market has already priced — and what it's watching for.

Institutional average: share reducing exposure now (x) vs. watching but not yet acting (y), by financing risk. Dots above the diagonal (purple) are slow-fuse risks the base is watching more than acting on; dots below (teal) are already being reduced. The x-axis measures the share reducing exposure now (actively cutting; excludes 'watching').



Aaru × Breakwater · Q3 2026 · institutional average (financing-condition risks)

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION	Organic growth, cash conversion, and returns on capital build conviction together. Geopolitical and governance exposures already carry structural discounts for much of the base.
DISCLOSURE	Governance, business-model clarity, liquidity runway, maturity schedules, and refinancing plans are the most important areas for preventing a watched risk from becoming an active sell trigger.
CAPITAL ALLOCATION	Reducing refinancing dependence and addressing maturity walls early should improve resilience. In challenged sectors, investors will require a credible path to sustainable returns rather than general strategic confidence.
INVESTOR ENGAGEMENT	Progress across several fundamental indicators is more persuasive than reliance on one catalyst. Watched risks should be addressed directly, particularly when smaller or higher-turnover investors are already reducing exposure.
SIGNAL TO MONITOR	The most important transition is movement from monitoring to active reduction in financing-sensitive exposures. Secondary signals are a rising geopolitical discount and further concentration in technology.

The Four Investor Groups

The same data, cut the other way — each group's overall posture in one place.

THE FOUR INVESTOR GROUPS

How to read these profiles

The nine findings cut the data by question: what the base agrees on, what triggers a sale, how AI is priced. This section cuts the same data the other way, by investor group, and assembles each into a single profile. The four groups are the ones modeled throughout: long-only institutional, situational-driven, sovereign wealth and large LPs, and retail.

The value is consolidation: where the findings show a group's position one question at a time, these profiles state each group's overall posture in one place, so a company that knows the composition of its register can read the most relevant profile directly.

One caution carries over from Finding 2. These groups are useful labels, but the behavior within each is driven by measurable traits, chiefly turnover, benchmark sensitivity, horizon, and size, more than by the label itself. A company whose long-only holders are unusually high-turnover will see behavior closer to the situational profile than the long-only one. Read these as the central tendency of each group, not as a deterministic script.

THE FOUR GROUPS AT A GLANCE

LONG-ONLY INSTITUTIONAL
Patient, benchmark-aware, hardest on permanent impairment.

SITUATIONAL-DRIVEN
Short-horizon, catalyst-seeking, the most reactive group.

SOVEREIGN WEALTH / LARGE LPS
Long-duration, private-market reach, near-indifferent to short-term events.

RETAIL (SEPARATE LENS)
Narrative-sensitive; reported alongside, never blended in.

PROFILE 1 · LONG-ONLY INSTITUTIONAL

The anchor capital: patient, benchmark-aware, and hardest on permanent impairment.

Long-only institutional investors are the multi-quarter core of most registers. Their decision horizon clusters in the one-to-three-year range: 27.8% at two to three years and 25.1% at one to two, with almost none operating on a sub-quarter clock. That patience defines how they act. They do not sell on events: a single missed or lowered guide moves only 36% of them to trim or exit, one of the lowest event-reaction rates in the study. What moves them is evidence of permanent impairment: a loss of pricing power (71%), a governance or management-credibility breakdown (62%), refinancing or liquidity stress (58%), and margin deterioration (58%). The pattern is consistent: they absorb noise and act on structural damage.

What earns their conviction is fundamental proof, not narrative. Asked the single proof point they would most reward, they lead with margin inflection (18%), ROIC improvement (16%), and free-cash-flow conversion (15%); clear AI monetization draws only 9%, less than half the retail figure. Their required-return demands rise most for weak governance (87%), business-model uncertainty (90%), poor board quality (88%), and the macro trio of country, policy, and AI-disruption risk (85% each), the near-universal risk repricing the whole institutional base shares. On incremental capital they concentrate in public equities (62% high-band) and investment-grade credit (38%), with essentially no reach into private markets (1% each for private equity and private credit).

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION

The most stable source of valuation support in the register, and the least likely to re-rate on a single quarter. A company held heavily by long-only capital has room to absorb an event without a sharp repricing, but pays a durable penalty for any structural weakness, whether governance, pricing power, or margin durability, that this group treats as permanent.

DISCLOSURE

Evidence-led disclosure reaches them most: cash conversion, returns on capital, margin trajectory, and governance substance. Narrative without a measurable anchor does little, because their conviction proof points are fundamental.

CAPITAL ALLOCATION

They reward focus, capital return, and prudence, and scrutinize idiosyncratic risk. Actions that reduce company-specific risk lower the return they demand; benchmark-aware holders in particular price down exposures that threaten sustained relative underperformance.

INVESTOR ENGAGEMENT

Lower-frequency, evidence-dense engagement fits them better than event-driven communication. The message that works is durability: that margins, returns, and governance hold up across cycles.

SIGNAL TO MONITOR

Whether this group's required return on firm-specific risk rises, a sign it is growing more discriminating on idiosyncratic exposure, and whether its event-reaction rate stays low. A rising missed-guide reaction here would signal the register's most patient capital is shortening its clock.

PROFILE 2 · SITUATIONAL-DRIVEN

The fast capital: short-horizon, catalyst-seeking, and the most reactive group in the study.

Situational-driven investors operate on the shortest clock in the study: 40% at zero to three months and another 29% at three to six, with almost none looking past two years. High turnover and benchmark-agnosticism make them the most reactive group by a wide margin, and they react across nearly every trigger, not selectively. A missed or lowered guide moves 78% of them to trim or exit, the single figure that anchors the study's widest divergence, against just 15% for sovereign capital. Evidence that AI spend is not paying back (74%), refinancing stress (74%), a disputed capital-allocation decision (64%), a regulatory shock (64%): all draw reactions that the patient groups mostly absorb. A governance breakdown moves 82% of them, the highest exit rate anywhere in the matrix.

Their conviction is catalyst-driven. They most reward proof points that unlock value on a near horizon: clear AI monetization (18%), sustained revenue acceleration (16%), and, distinctively, portfolio simplification or divestiture (10.5%, roughly three times the long-only rate), the event-creating moves that re-rate a stock quickly. On capital allocation they favor buybacks, simplification, and divestitures and are comparatively cold on the patient moves like dividend increases. On incremental capital they hold the highest tilt toward high-yield and leveraged credit of any institutional group (27% high-band, against 11% for long-only), and their required-return demands, while still elevated, show more dispersion than the anchored groups, pricing cyclicality and leverage less uniformly.

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION	The source of most of a stock's event-driven volatility. A register weighted toward this group will reprice sharply, up or down, on a single quarter, a guidance change, or a catalyst. The multiple is more sensitive and less sticky.
DISCLOSURE	Cadence and surprise management matter most. This group acts on event-level signals, so the premium is on frequent, clear, expectations-managing communication that reduces the odds of a negative surprise it will act on immediately.
CAPITAL ALLOCATION	Catalyst-creating moves earn the most credit here: buybacks, simplification, divestitures. The patient moves earn less. A company seeking to engage this group with capital-return or restructuring actions will find the most receptive audience.
INVESTOR ENGAGEMENT	Event-oriented, high-frequency engagement fits. This is the group most likely to reward a discrete catalyst and most likely to exit on a discrete disappointment, so the engagement question is managing the flow of events, not building a multi-year thesis.
SIGNAL TO MONITOR	Whether this group's reactivity gradient steepens: a higher missed-guide or catalyst-reaction rate would mean the same disappointment reprices a stock harder next quarter. This is the group whose behavior the tracker watches most closely for early signs of a more fragile market.

PROFILE 3 · SOVEREIGN WEALTH / LARGE LPS

The long-duration capital: multi-year horizon, private-market reach, and near-indifference to short-term events.

Sovereign wealth funds and large LPs hold the longest horizon in the study: 38.5% at five years or more and 31.7% at three to five, with almost nothing under a year. That duration produces the most distinctive behavioral signature in the set: near-indifference to the events that move everyone else. A missed or lowered guide moves just 15% of them; they sit through the single event that moves 78% of situational capital. A multiple re-rating with no fundamental change (18%), a disputed capital-allocation decision (25%), evidence AI spend is not paying back (26%): all draw muted reactions. The one trigger that moves them like everyone else is a governance or board-quality breakdown (68%), the universal signal of permanent impairment that no horizon forgives.

Their conviction rests on returns quality over a long hold: they most reward ROIC improvement (19%), free-cash-flow conversion (16%), and management-execution credibility (12%, the highest of any group). Their defining feature on capital is reach: they are the only group that deploys meaningfully into private markets, with 20% high-band demand for private equity and substantial real-asset and infrastructure appetite, against roughly 1–5% for the other institutional groups. This is partly a size effect, since appetite for private markets scales with AUM, but it makes this group the most accessible pool of patient, non-crowded capital in the study. Their required-return repricing on governance, business-model, and macro risk tracks the broad institutional consensus.

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION	The most durable and least event-sensitive support in the register. This group will hold through quarters that shake out faster capital, but it anchors on long-term returns quality and governance, and it withdraws support decisively on structural or governance impairment.
DISCLOSURE	Long-horizon substance reaches them: sustained ROIC, capital-allocation discipline, and management-execution track record. They are the group least moved by quarter-to-quarter narrative and most attentive to multi-year evidence.
CAPITAL ALLOCATION	They reward returns discipline and patient value creation, and are the natural audience for companies whose story is measured in years. For companies able to attract it, this is the pool actively diversifying away from the crowded public-equity and technology trade.
INVESTOR ENGAGEMENT	Low-frequency, high-substance engagement built on the long-term return and governance case. Event management matters least here; consistency of strategy and capital discipline matters most.
SIGNAL TO MONITOR	Whether the sovereign and large-LP tilt into private markets strengthens further, since a continued shift would tighten the pool of this capital available to public names, and whether its governance-driven reaction rate holds as the one event trigger it shares with the rest of the base.

PROFILE 4 · RETAIL

SEPARATE LENS

The narrative-sensitive capital: reported alongside the institutional groups, never blended with them.

Retail is modeled and reported as a distinct lens, not merged into any institutional average, because its behavior differs in kind. Its horizon is shorter and more dispersed than the anchored institutional groups, concentrated in the three-to-twelve-month range rather than multi-year, and its reactivity sits in the middle of the set: a missed or lowered guide moves 46%, above long-only's 36% but well below situational capital's 78%. What most distinguishes retail is what it rewards. It is the group most likely to name clear AI monetization as its single highest-value proof point (24%, against 9% for long-only, more than double), and it uniquely elevates capital-return commitment (15%) among its top proof points. Where institutions demand the AI numbers, retail rewards the AI story.

That narrative tilt is the throughline. Retail is the group most likely to raise its willingness to pay for public comparables when marquee names come public at premiums, at 44%, more than three times the long-only rate of 13%, the sharpest expression of narrative-money behavior in the study. On incremental capital, retail holds the highest cash preference of any group on a forward-deployment basis, even as its current portfolios run fully invested; the two are not in conflict, because the forward tilt describes where the next marginal dollar leans, not the existing book. Its required-return discipline is looser than the institutional groups', and it treats geopolitical and macro risk more as episodic volatility than as a standing discount.

WHAT IT MEANS FOR A PUBLIC COMPANY

VALUATION

Retail is the segment most likely to re-rate on narrative, whether an AI story, a marquee-listing comparable, or a momentum theme, and least likely to hold a valuation to the fundamental screen the institutional groups apply. A retail-heavy register can lift a multiple on a story that institutions would not pay for, and can withdraw it as quickly when the narrative shifts.

DISCLOSURE

Retail responds to the accessible story and the headline proof point, where institutions require the underlying economics. Disclosure that lands with retail is not the same disclosure that lands with the institutional base, and a company with a mixed register manages two audiences reacting to the same event in different directions.

CAPITAL ALLOCATION

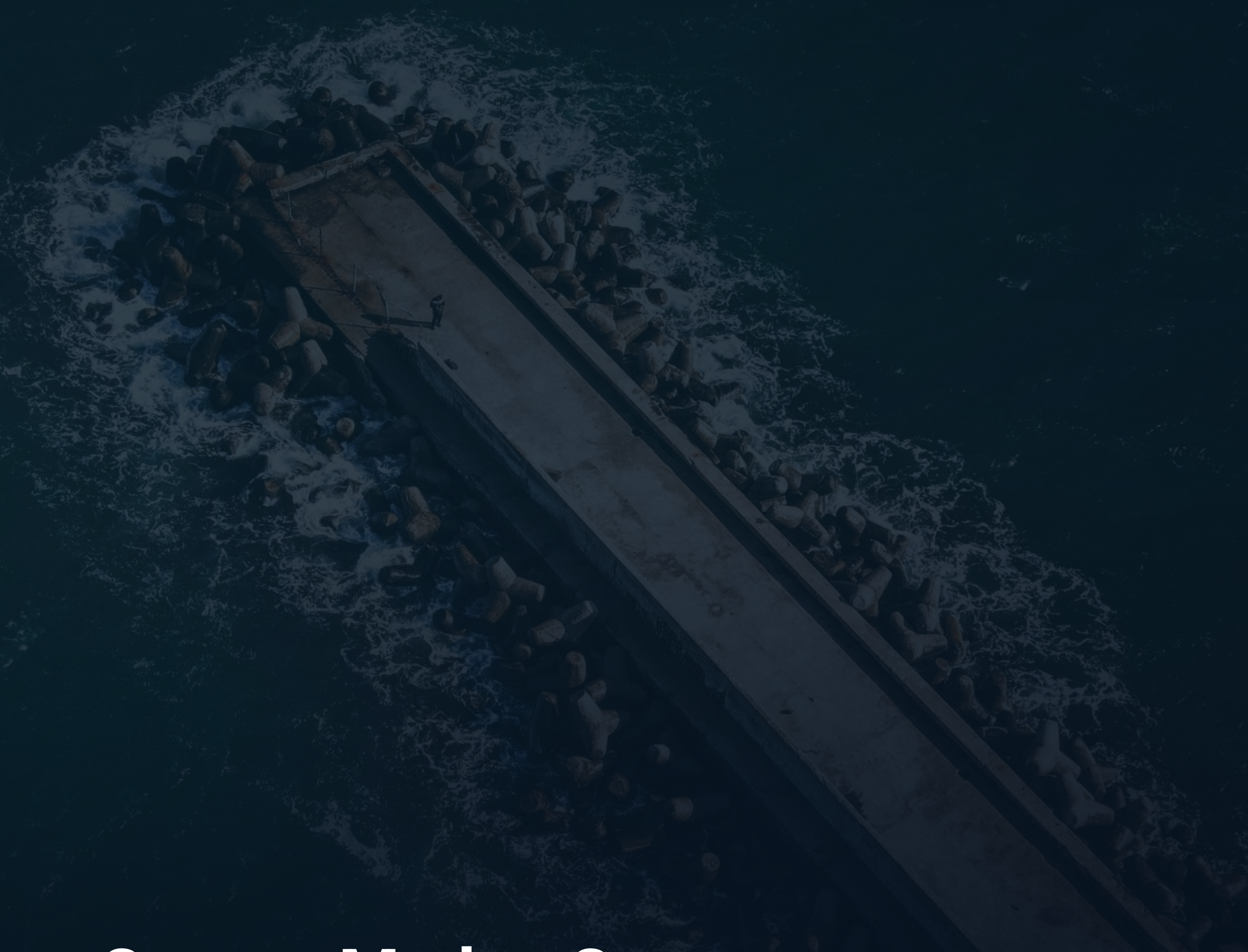
Capital-return commitments and visible growth narratives resonate most. Retail rewards the story of AI monetization and the signal of capital return more than the patient balance-sheet moves the long-horizon groups credit.

INVESTOR ENGAGEMENT

The narrative and the proof point reach retail; the multi-year fundamental case reaches the institutions. For an AI-exposed company in particular, retail is the audience that rewards the vision, the mirror image of the institutional demand for quantified evidence.

SIGNAL TO MONITOR

Whether retail's narrative tilt converges with the institutional read or widens from it, that is, whether the gap between retail enthusiasm and institutional discipline narrows as marquee names season, or widens as new narratives arrive. This is less a fixed tracker metric than a dynamic worth watching as the marginal narrative dollar moves.



Current Market Context

A credibility check: the modeled read, set beside the real-world tape, quarter to date.

CURRENT MARKET CONTEXT

How this quarter's results compare with the market tape

The framework measures modeled investor behavior. A reasonable test is whether the conclusions are consistent with observable market outcomes. This section identifies four areas of broad alignment: the split within AI, the repricing of macro and policy risk, the sovereign shift toward private markets, and the emergence of credit stress beneath still-benign market pricing.

The comparison should be interpreted as a credibility check rather than an out-of-sample forecast. The topical questions were designed in an environment where the broad AI trade and the IPO calendar were already visible. The more differentiated contribution of the framework is the structural decomposition, particularly the relationship between turnover and reactivity and the narrow institutional dispersion around core fundamentals.

A NOTE ON THE BACKDROP

2026 has been shaped by a Middle East war that began in late February (US and Israeli strikes on Iran), a disruption to the Strait of Hormuz, an oil-price spike that pushed Brent above $113, a re-acceleration of inflation, and a newly hawkish Federal Reserve under Chair Kevin Warsh, with a US–Iran de-escalation roadmap emerging by late June. One timing caveat travels with everything that follows: much of the cleanest market data here predates an **early-June repricing**, when an AI-guidance disappointment and a hot jobs print pulled technology and the broad index down from their highs. The late-cycle signals below should be read as hardening rather than hypothetical.

ONE DISTINCTION WORTH DRAWING FIRST · CONSISTENCY CHECKS, NOT PREDICTIONS

The topical questions in this quarter's instrument were written in mid-2026, when the broad shape of the AI trade and the IPO calendar was already visible. The AI and IPO corroborations below should therefore be read as **consistency checks, not out-of-sample predictions**: the test is whether the modeled population reasons about a known environment the way the real market did, a meaningful validation of the method, not a forecast of events it could not have seen. The more differentiated results are the structural ones, the trait gradient that decomposes reactivity and the narrow institutional dispersion on fundamentals, because no public dataset measures those directly. The structural findings are the primary contribution; the market matches confirm that the population behaves sensibly.

WHERE THE MARKET EVIDENCE CONFIRMS THE READ

✓ AI: infrastructure is rewarded; vulnerable application models are discounted

The closest alignment is within AI. The tape shows strong performance in semiconductor exposure and a material de-rating in application-layer software. The market distinction is consistent with the modeled results: investors are paying for the enabling layer and for businesses with demonstrated economics, while assigning lower values to business models exposed to substitution or uncertain monetization.

The conclusion should not be overstated. Part of the software multiple compression predates the current AI cycle and reflects rates, normalization in seat growth, and slower end demand. Even so, AI substitution appears to be an important catalyst in the latest phase of the de-rating.

✓ Macro and policy risk: repricing is visible in rates and dispersion

The modeled base demands higher returns for policy, geographic, and macro risk. The real-market expression is clearer in bond yields and company-level dispersion than in the equity index, where aggregate valuations remain elevated.

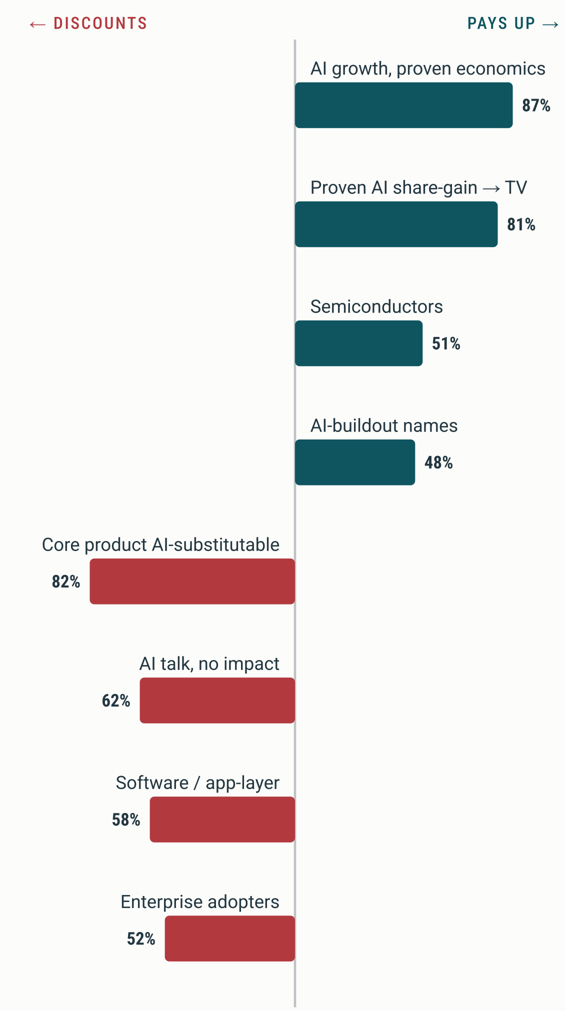
This is a useful distinction. Headline indices can remain resilient even as the cost of capital rises and individual companies with governance or accounting concerns are punished sharply. A broad stance measure may therefore detect risk repricing that an index-level multiple obscures.

CURRENT MARKET CONTEXT

The market is drawing the same line the modeled investors draw.

Left: the institutional base's modeled AI split. Right: real H1 2026 market behavior. Same dividing line, different evidence. The panels share an argument and an orientation, not a common scale.

SYNTHETIC · % OF THE INSTITUTIONAL BASE



REAL · H1 2026 MARKET BEHAVIOR

↑ THE MARKET PAYS FOR PROVEN

- **Semiconductors (SOXX) ≈ +100% YTD**
  The proven-infrastructure layer and the year's dominant trade.

- **Proven AI economics rewarded**
  Adopters delivering measurable AI results are seeing margin expansion well above the global average; the proven side held earnings leadership while software de-rated.

THE PROOF LINE

↓ AND DISCOUNTS PROMISED

- **App-layer software de-rated on AI-substitution fear**
  Software ETF (IGV) ≈ −21% YTD; sector forward P/E ≈ 22.7×, below the S&P 500 for the first time since 2020. Bain, BlackRock & J.P. Morgan AM tie it to AI eroding per-seat models (e.g. Atlassian −35%, Salesforce −28%).

- **Capex outrunning disclosed payback**
  ≈ $725B hyperscaler capex now exceeds internal cash flow; investors grew more selective on buildout names lacking payback disclosure. The discount tracks the missing disclosure, not the company.

Forward-P/E trajectory per Bloomberg Intelligence (general time periods, not event-dated); the below-S&P crossover is a first since 2020 (the series start), not "first ever." Roughly half the multiple compression since 2022 predates AI (rate hikes, seat normalization); AI substitution is the stated dominant catalyst of this year's leg, layered on a pre-existing growth slowdown. This is the "discount until payback is proven" logic the synthetic finding captures.

Aaru × Breakwater · Q3 2026 (left) · SOXX / Bloomberg Intelligence / Bain / BlackRock / J.P. Morgan AM, H1 2026 (right)

WHERE THE REAL MARKET CONFIRMS THE READ · CONTINUED

✓ Sovereign and large-LP capital: private-market appetite is structurally higher

One of the report's clearest divergences by mandate is that sovereign wealth funds and large LPs are the only pool tilting materially toward private equity and real assets. The allocation data corroborates it: sovereign private-market allocations reached roughly 29% in 2025, concentrated in digital infrastructure, data centers, and AI. The clearest single confirmation is a transaction: GIC's lead on the $30 billion round in Anthropic in February, alongside a series of sovereign AI-infrastructure deals. The modeled tilt and the actual sovereign allocations point the same way.

✓ Credit: fundamentals are deteriorating before spreads reflect the risk

The catalysts-and-risks section flagged financing stress as something the base is *watching*. The market evidence shows that stress building, but in a way that is easily misread: it is visible in fundamentals, not yet in pricing. The private-credit default rate has climbed to multi-year highs, defaults are up sharply year over year, a large share of private-credit borrowers now run negative free cash flow, and several retail private-credit vehicles saw redemptions large enough to gate or require a manager backstop. That is investors already acting, not only watching. On pricing, credit still looks benign: high-yield and investment-grade spreads sit near multi-decade tights and issuance is running at a record pace. The divergence is the point: capital continues to flow on benign pricing while underlying credit quality and the most retail-facing pockets of liquidity deteriorate. It corroborates the posture the modeled base took: watching, and beginning to act, before the price signal turns. Whether the deterioration stays idiosyncratic or proves early-cycle is unresolved among managers, and the report carries both views.

WHERE THE TWO LENSES SEE DIFFERENTLY, AND WHAT IT TELLS US

◇ Structural risk appetite versus current positioning

The model ranks situational-driven investors as the most risk-tolerant of the institutional types. The real-time survey evidence shows the opposite *motion*: in June, fund managers pared risk, with cash balances rising and equity overweights cut sharply, after a record-bullish May, on the Iran shock. The two are not in conflict; they measure different things. The modeled read is a **structural** ranking of which investor type is, by mandate, more risk-tolerant. The survey captures a **moment**: the whole market de-risking on a specific shock. Both can hold at once. The distinction illustrates what the study is and is not: a structural read of how investor types behave, not a real-time sentiment tracker. That is why the tracker matters. This quarter's reading is the baseline against which next quarter's movement is measured.

◇ Retail cash preference versus current cash holdings

The modeled read gives retail a relatively high tilt toward cash, the highest of any audience on a forward-deployment basis. A glance at the real data looks contradictory: retail's *current* cash allocation sits at just over 15%, below its historical average for more than forty straight months, while its equity allocation runs above average. The two readings measure different things, and once separated they agree. The synthetic figure is retail's *incremental-deployment* tilt, where the next marginal dollar would lean. The survey figure is the *current portfolio*. A retail base can be fully invested now *and* hold a relatively high preference for cash as the destination for incremental capital. The record money-market pile, near $7.9 trillion, sits comfortably with both; read correctly, the real data supports the synthetic tilt rather than contradicting it.

WHAT THIS ESTABLISHES

◇ What this quarter's context could not capture

The market evidence reviewed here is broadly consistent with the modeled conclusions in the areas that matter most: AI differentiation, macro-risk repricing, sovereign private-market demand, and emerging credit stress. Where the results differ, the differences generally reflect timing or measurement rather than a direct contradiction. The principal limitation is also clear: public data do not provide a clean external test of the report's most differentiated structural finding, that reactivity to a single event is better explained by turnover and benchmark sensitivity than by investor-type labels. That gap is part of the potential value of the framework, but it also means the result should be tracked over time rather than treated as established fact after one quarter.

THE CREDIBILITY CASE

Read against the market evidence, this quarter's findings hold up where it matters: most tightly on AI, macro repricing, the sovereign tilt to private markets, and the rising credit stress the modeled investors were already watching. Where the lenses differ, the differences are instructive rather than contradictory: a structural ranking is not a real-time sentiment reading, and a forward-deployment tilt is not a current overweight. Neither is a flaw in the read; both clarify what a synthetic study measures.

The methodology explains how the read is built; the Current Market Context section shows it stands up against the tape.

Questions for the Next Quarter

What this quarter's data raises for the next — things to watch as the tracker accumulates.

QUESTIONS FOR THE NEXT QUARTER

Questions for the next quarter

A study like this is as useful for the questions it raises as for the ones it answers. Several threads in this quarter's data are worth carrying forward, both as things to watch as the tracker accumulates and as hypotheses the next quarters can test.

01 Does the reactivity gradient steepen?

Propensity to act on a single event tracks turnover, size, and horizon as a single reactivity factor. If that factor steepens quarter over quarter, the same disappointment will reprice a stock more sharply than it does today. The tracker is designed to measure this directly.

02 Is the consensus on fundamentals durable, or a late-cycle artifact?

The base agrees almost completely on what it fundamentally values. A tight consensus is powerful, but it is also crowded, and crowded agreement is fragile. Whether it persists or fractures as conditions change is among the most consequential things the tracker can reveal.

03 Where does the AI line move next?

The base pays for proven AI and discounts promised AI, with the line drawn at demonstrated economics. As more companies move from promising AI to reporting it, does the premium migrate from the infrastructure layer to the adopters now being discounted, and how quickly must proof arrive before patience runs out?

04 Does retail's narrative tilt converge with the institutional read, or widen from it?

Retail is the one lens that rewards the AI narrative and pays up on hot comparables where institutions hold discipline. Whether that gap narrows as retail's holdings season, or widens as new narratives arrive, is an open question about where the marginal narrative dollar goes.

05 Do the watched financing risks tip into acted-on ones?

The base has flagged its concern about maturity walls and refinancing dependence but has not broadly acted, while the smallest, most nimble investors are already moving first. Does the watching cohort tip into selling, and does that early movement spread to the anchor holders?

06 Does the structural risk appetite begin to show up in real positioning?

This quarter's read is a structural ranking of which investor types are more risk-tolerant by mandate, measured against a market that had just de-risked on a shock. As the shock recedes, does real positioning re-converge toward the structural baseline the model describes?

These are forward-looking provocations, not commitments to answer all of them; the tracker's design means several will be answerable directly next quarter.