

BACKDROP

The tariff policy escalations at the start of Q2 2025 by the current administration have shaken global markets and raised uncertainty to historically high levels. The resulting policies negatively impacted liquidity, while the decline in equity and fixed income markets also led to the denominator effect in asset allocators' portfolio. The ever-changing narrative on tariffs has been front and center, effectively diminishing some of the tailwinds (lower interest rates, deregulation, improved activity) behind private markets, and exacerbating existing difficulties. As a result, inflation is anticipated to increase while the magnitude and pacing of interest rate cuts in the United States have become less clear, leading markets to price in slower growth. Moreover, the current administration's unprecedented focus on nonprofit and educational institutions' tax-exempt status has increased the demand for liquidity in an already challenging environment. Nonetheless, dislocations have occurred throughout history and are unlikely to cease in the future. A component of expected returns in private markets includes the liquidity premium, which we believe still holds for long-term investors. As such, we recommend staying the course and continuing to diversify private market allocations across vintage years and other areas of opportunity across private asset classes.

PRIVATE EQUITY

In 2024, private equity saw valuation multiples rebound; this recovery is likely due to the valuation premiums typically warranted from high-quality companies exiting the market. We may begin to see valuations level off as lesser-quality companies with lower transaction premiums begin to exit, leading to pricing compression. The uncertainty brought on by tariffs will likely place exits and, in turn, distributions, which provide liquidity to limited partners (LPs), back under focus as exits become muted. In response, there has been a recent uptick in continuation vehicles, a structure in private equity where the general partner (GP) transfers one or more assets from an existing fund into a newly created vehicle to extend the holding period. Other mechanisms that offer LPs liquidity, such as NAV loans (debt secured by underlying investments) and secondaries (GP/LPs selling their investments/fund interest), have also increased. Moreover, uncertainty has kept some capital allocators on the sidelines, leading to a tougher fundraising environment now relative to prior years.

While the current environment for private equity appears to have more headwinds than before, there is a silver lining when it comes to opportunities. Such is the case with the secondaries market, where today's liquidity demand and supply imbalance could lead to attractive opportunities for acquiring quality companies at a discount. Additionally, we continue to favor lower middle market buyouts, where smaller companies are domestically oriented (better insulated from tariff impacts) and at lower relative valuations compared to large private companies. Elsewhere, growth equity and co-investment opportunities could also be areas of interest, as the former has no need for borrowing, making it less sensitive to the higher-for-longer interest rate environment, and the latter typically has lower expenses due to the absence of management fees.

PRIVATE CREDIT

Within private credit, tariff-related uncertainty has yet to fully translate into fundamental insights due to lagging reported data within private markets. In 2024, the Cliffwater Direct Lending Index (CDLI) credit losses ended at 0.69%, well below the 20-year historical level of 1.01% and we continue to see strong interest coverage ratios and lower leverage. Furthermore, according to Cliffwater, observed unrealized loan write-downs during times of severe stress (2008, 2015, and 2020) have historically exceeded subsequent realized losses and, unless defaulted, typically reversed when principal was fully paid. If history is a guide, private credit remains relatively attractive compared to public risk assets based on principal protection, income generation, and inflation protection components.

Despite extreme uncertainty, potential for further slowdown, and lower deal activity levels, the maturity and growth of the private credit market has provided a high level of certainty on loan execution, meeting borrower demand. Thus, we continue to see areas of opportunity that may warrant further investigation within this asset class and favor a diversified (geographic/sub asset class) private credit exposure to complement the existing middle market direct lending allocation. Further, a focus on balance sheet quality, strong covenants and documentation, and limited exposure to paid-in-kind instruments is desired.

PRIVATE INFRASTRUCTURE

Private infrastructure remains a compelling opportunity backed by strong secular demand and megatrends over the long term. Infrastructure is a bi-partisan issue with a meaningful

gap where private capital can fill the void. Cutting through the recent noise regarding a slowdown in digital infrastructure spending, tariff uncertainties, and climate rhetoric from the current administration, the fundamental demand for this asset class remains intact. The long-term trends for the AI theme in power, data centers, and critical input materials, coupled with society's critical need for infrastructure improvement and development, remains supportive of this asset class.

CONCLUSION

Overall, we acknowledge the current headwinds in private markets and the challenges of navigating a highly uncertain and fast-moving environment. We remain committed to monitoring the ever-changing dynamics across private assets and, despite the noise, continue to see attractive opportunities across this market. While we expect elevated volatility in the near term, we believe investors will continue to benefit in the long run by maintaining a diversified asset allocation that includes private markets.

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