Franklin Templeton Institutional

2025 Private Markets Outlook

A new dawn

$ denotes United States Dollar.

Views expressed as of January 2025.

Overview

- Private markets continued to expand and diversify in 2024 with areas like private equity secondaries and private credit garnering many investors' attention. We believe that 2025 will mark a new dawn for the private market landscape, with the best opportunities in less crowded areas of the market.
- In 2024, we saw several new trends appear. Many asset allocators exhibited a type of "flight to safety" behavior with a significant concentration of capital flowing to only the largest funds. There has been a notable acceleration in asset manager consolidation as firms try to build more scale and diversity into their investment offerings. Wealth-targeted private market funds look poised to become a growing part of the landscape as product innovation continues.
- Longer-term, we think these forces are likely to result in a more bifurcated landscape. Larger volumes of capital seeking bigger deals are creating greater competition for mega-sized dealmaking. In contrast, we continue to see more liquidity-starved areas of the market presenting better valuations and less competition, making them competitive alternatives.
- While some of the challenges facing private markets over the past few years are still present, there appears to be a bottoming out and reasons for renewed optimism across each category of private markets. However, this new dawn will likely require digging a little deeper into each asset class to find the best opportunities.
- The **private equity** (PE) and **venture capital** (VC) playbooks of the past decade, where one could financially engineer a return, are becoming less effective. In today's environment, we believe investors will be rewarded for partnering with managers who have true value-creation expertise and are concentrated on a narrower set of best-in-class investments with a clear plan for exit.
- The global **secondary market** still represents a relatively small slice of the broader private equity market, despite tremendous growth in recent years and remains undercapitalized against increasing demand for liquidity solutions. As more limited partners (LPs) and general partners (GPs) come to market, we expect the opportunity set for secondaries to expand and diversify further with more middle-market PE deals and non-traditional transaction types, such as single-asset continuation vehicles.
- As the upper end of the US direct lending space has become increasingly crowded and many asset owners have built out their core exposure, investors may want to look to different **private credit** categories and geographies to both diversify and improve the return potential in their private debt allocations. Commercial real estate (CRE) debt—particularly in the multifamily sector—presents an especially compelling opportunity thanks to favorable pricing and supply-demand dynamics. Similarly, Europe's smaller, less competitive private debt market appears to be expanding with opportunities across a wide spectrum of countries and industries.
- **Commercial real estate**—a historically dependable asset class—has been in a rare moment of weakness. However, there are long-term secular drivers that will continue to make CRE a competitive part of an alternatives allocation. Underneath the surface, the asset class is undergoing a structural shift in its composition with a more prominent role and growing opportunity set in alternative sectors, including healthcare facilities, storage properties and different forms of rental housing.

Table of contents

“2025 may prove to be a new dawn for private markets. As many of the key uncertainties of the past few years have receded, the long-term growth trajectory for this asset class remains exceptionally strong as it continues to become an even more integral part of the global capital markets.

With ever increasing interest in the space, we believe the most promising opportunities will be found if investors are willing to delve deeper into each sub-asset class to access more nuanced and less competitive pockets of the market.”

Franklin Venture Partners

Benefit Street Partners

Alcentra

Clarion Partners

Lexington Partners

Franklin Templeton digital assets

Introduction

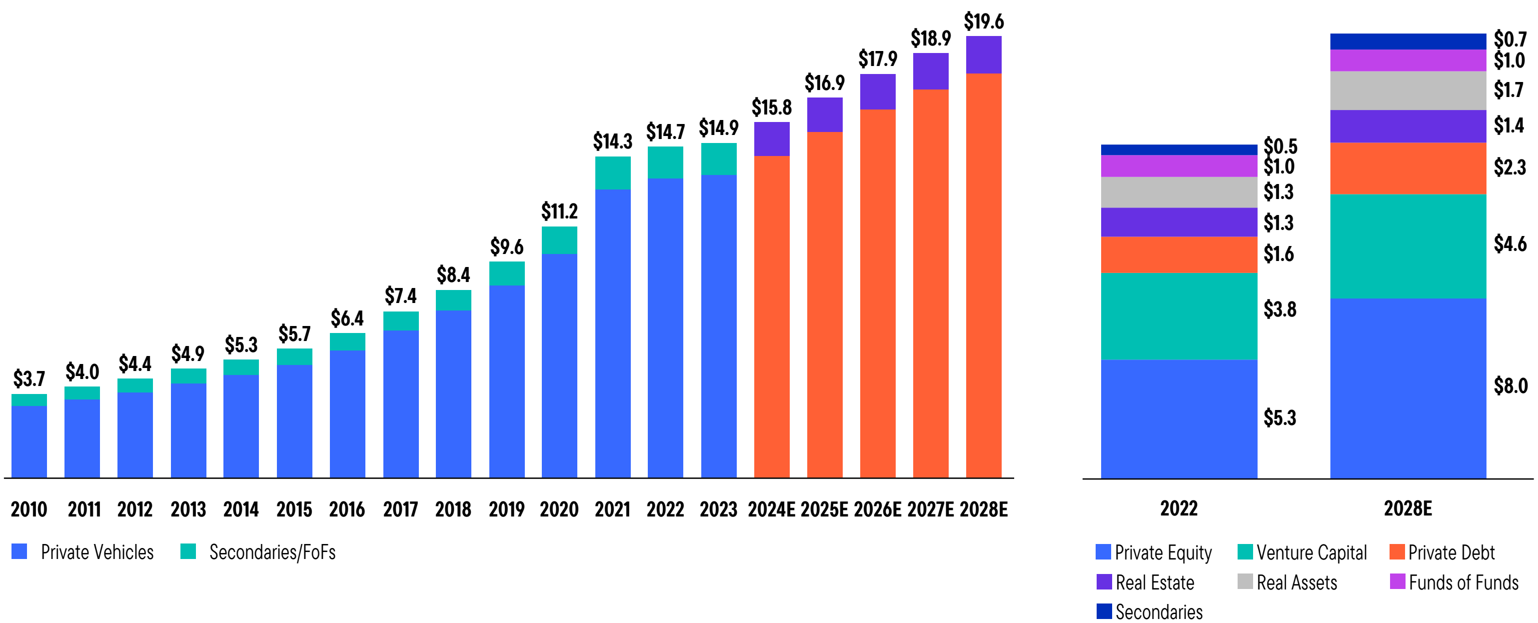
2025 private markets landscape

Continued expansion and evolution of private markets

Private markets have sustained significant growth over the past decade—reaching approximately $15 trillion in assets under management (AUM) globally and growing at twice the rate of public markets.[1] Although the growth rate seen during the 2010s is likely to moderate, PitchBook estimates the market could increase to nearly $20 trillion within the next few years, driven primarily by continued institutional investor interest as well as the secular trends driving capital formation in private markets relative to public.

Private Market Growth Expected to March On, Driven by Private Equity, Credit and Secondaries

Global Private Capital Closed-End Funds AUM Forecast ($tn)

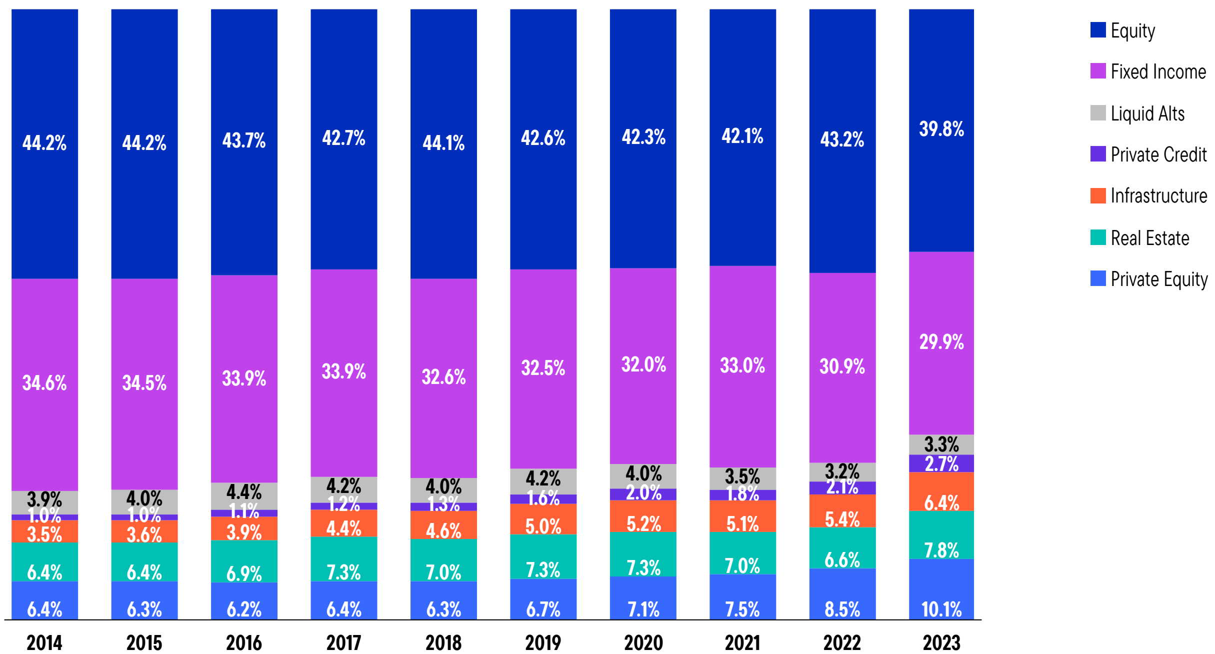


Source: PitchBook. Private Capital's Path to $20 Trillion. AUM and forecasts as of 4/19/2024. There is no assurance that any projection, estimate or forecast will be realized.

Institutions continue to turn to private assets in search of higher return potential, diversification and inflation hedging characteristics. Over the past decade, the average institutional portfolio has raised its allocation to private markets from 17% to 27%. Institutional demand is likely to continue, as institutional investors from across the spectrum expect to grow the value of their existing alternative holdings by 4-10% per year through 2032.[2]

Long-Term Shift to Private Markets Continues

Average Institutional Investor Asset Allocations



Source: CEM benchmarking, as of 12/31/2023.

Asset allocators face persistent liquidity pressures

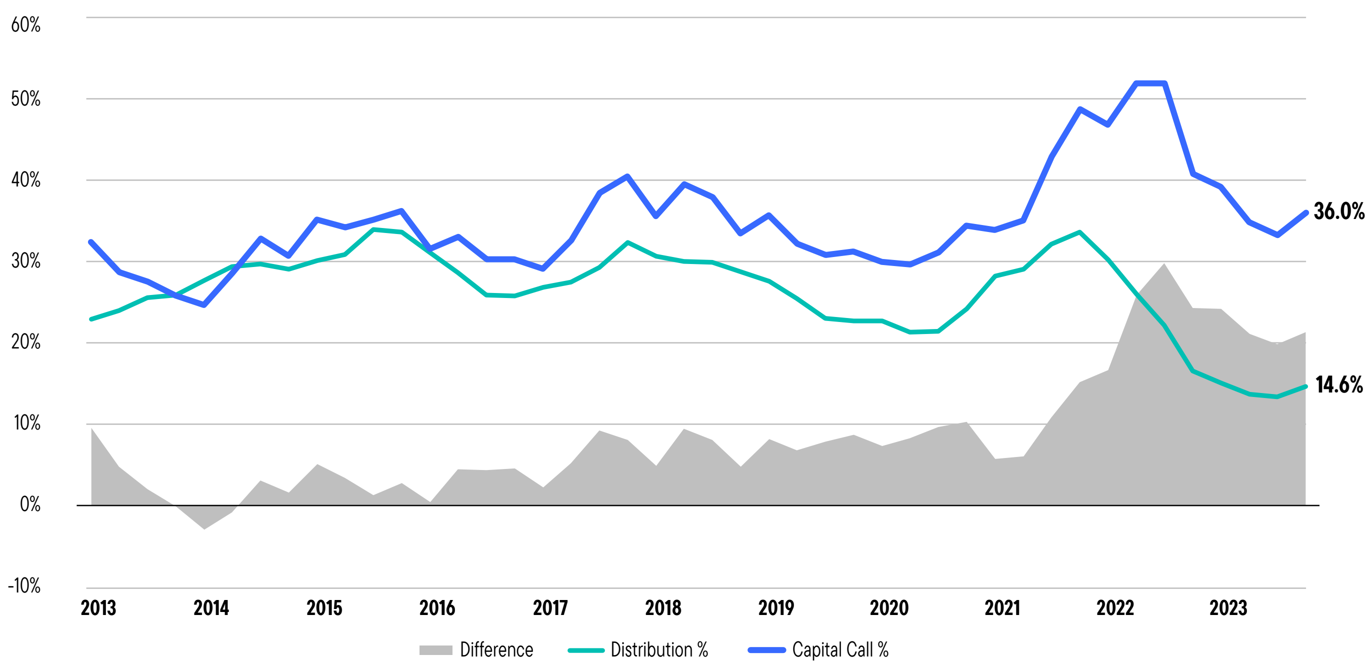
Investors faced another challenging year in 2024 as a sluggish exit environment prolonged a painful traffic jam for LPs and GPs. The gap between capital calls and capital distributions remained wide, creating a capital crunch for LPs and hampering GP fundraising activity.

We have found that many asset allocators have private market portfolios with aggressive commitment timelines and need significant distributions just to keep pace. As asset allocators weigh their choices—such as limiting new commitments or turning to the secondary market—liquidity remains a central theme.

To alleviate some of the liquidity pressures, we have also seen some creative short-term solutions by both asset allocators and investment managers. Some asset allocators have moved to revisit their investment policy statements to create wider bands for asset class allocation limits. Others have decided to employ leverage at the plan level to gain more portfolio flexibility. We have also seen many investment managers utilize NAV loans to create more distributions for asset allocators.

Gap Between Capital Calls and Capital Distributions Continues to Be Wide

Aggregated PE Distribution vs. Capital Call Rates

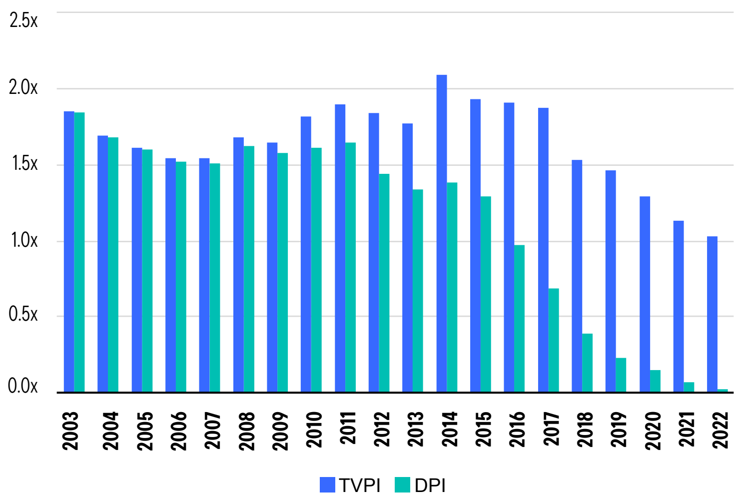


Source: PitchBook, Behind the J-Curve. Data as of 3/31/2024.

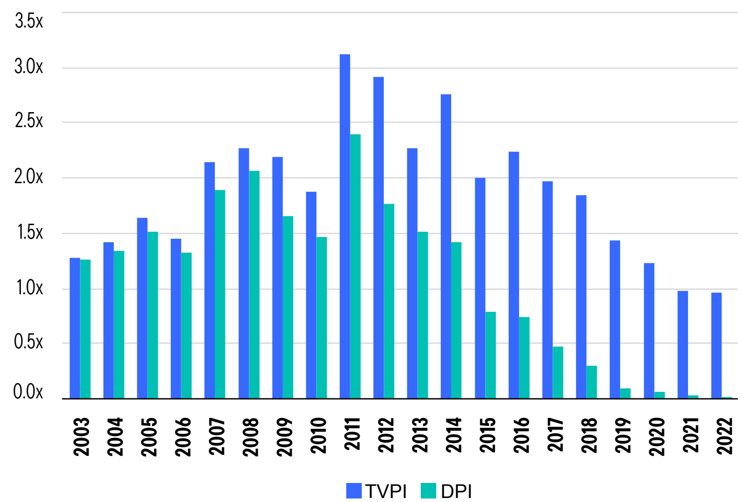
In our view, the slower rate of returned capital from buyout and venture capital investments, as measured by total value to paid-in (TVPI) versus distribution to paid-in capital (DPI), will lead investors to diversify their private market allocations beyond these two asset classes that dominated portfolios in the past. We think asset allocators will become increasingly precise and selective in their investment approach. For instance, the level of interest rates will likely become a much more important factor in the composition of many private market allocations as they evolve over time. We expect investors to move away from assets where borrowing costs are a problem and/or financial levers were the drivers of return and move into areas like private credit, where higher interest rates can be beneficial.

Newer Vintages Creating Liquidity Drought

PE TVPI & DPI by Vintage



VC TVPI & DPI by Vintage



Source: PitchBook, Behind the J-Curve. Data as of 3/31/2024.

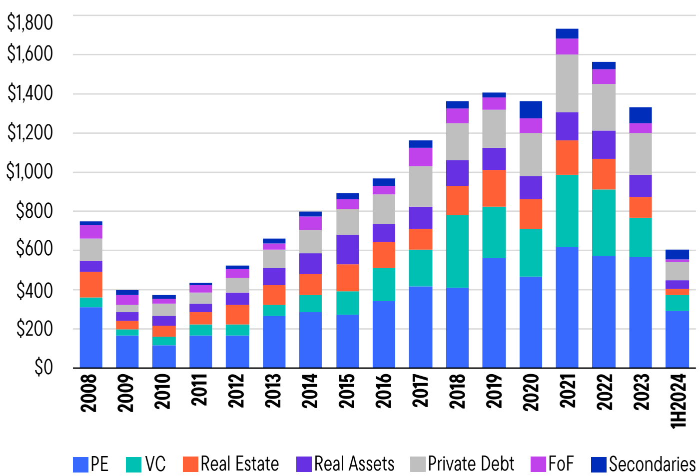
A slower, more concentrated fundraising environment

With less capital coming back to asset allocators, fundraising remained off pace in 2024—and became notably concentrated. The first half of 2024 saw the highest concentration of flows into mega funds in the last 15 years, with nearly 40% of private capital raised by funds sized $5 billion or greater.

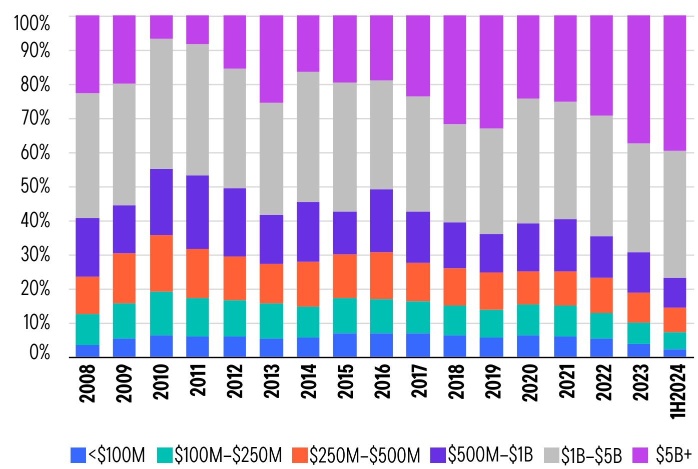
This degree of concentration fuels a crowded market with intense competition for the few deals large enough to be suitable for mega funds. On the flip side, less competition for opportunities may exist for investors who begin to explore more capital-constrained areas. Certain smaller, niche markets and geographical regions may also fall outside the crowded lanes, given the fact that mega funds cannot move the needle for their strategies with these smaller opportunities. Moreover, with the lack of deal activity during the 2022 and 2023 period, many large buyout funds are now under time pressure to deploy capital during their investment periods. In our view, many of these down-market areas have more competitive valuations. For example, the average EV/EBITDA of US and Europe middle-market buyout deals versus mega buyout deals from 2019–2023 was 12.8x versus 16.0x, respectively.[3]

Highest Concentration of Flows into Mega Funds in 15+ Year

Private Capital Raised by Type ($bn)



Private Capital Raised by Fund Size



Source: PitchBook, Q2 2024 Global Private Market Fundraising Report. As of 6/30/2024.

Industry consolidation may drive competition for larger dealmaking

In 2024, the trend of asset manager acquisition and industry consolidation accelerated, both in the number of transactions and the total deal value.

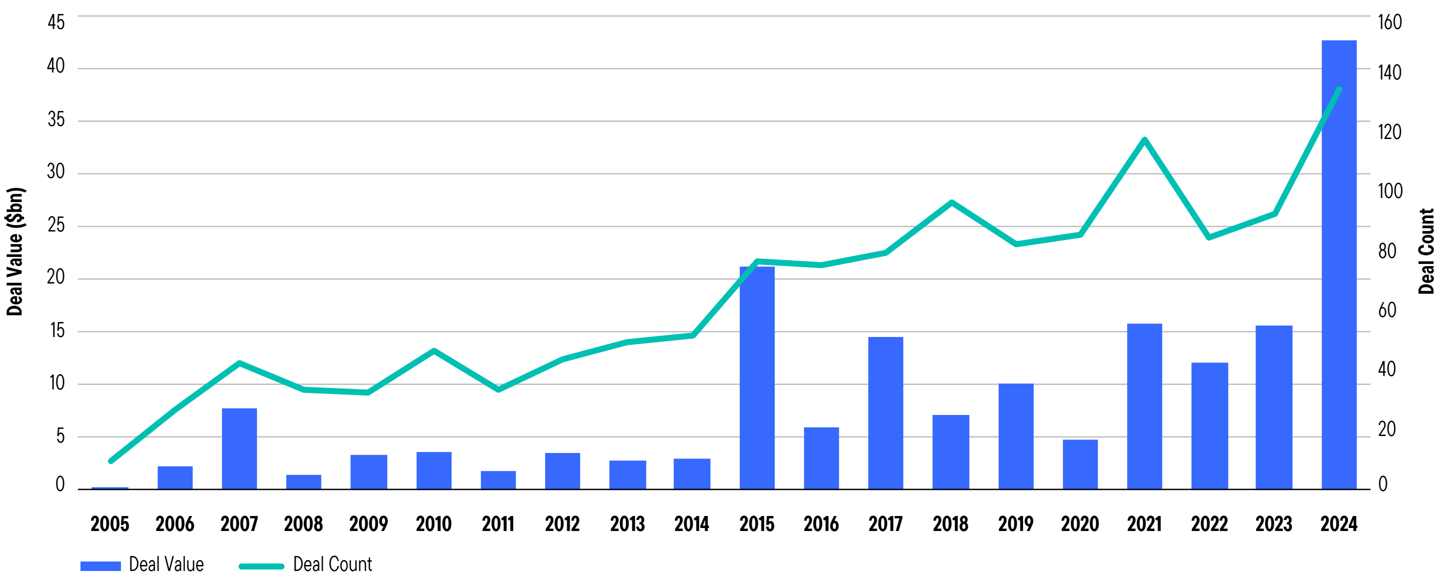
The spike in 2024 is partially due to a small number of large acquisitions of established private market managers by larger, traditional asset managers. We expect this trend to continue due to two main factors. First, from the fund provider side, asset managers are likely to seek greater scale and expand their investment offerings by acquiring smaller managers with complementary capabilities, such as alternatives. Second, asset allocators are likely to continue seeking ways to simplify their complex and numerous manager roster by having more expansive relationships with fewer partners.

In a somewhat analogous development, a number of partnerships between private credit firms and traditional bank lenders have been announced. These partnerships intend to leverage their respective core competencies and balance out the challenges of each party. Private credit managers offer expertise in complex lending situations with less regulatory restrictions than banks. Banks in turn offer vast networks to provide capital for lending without their balance sheets becoming inflexible.

Over the long term, we believe there will be fewer but larger investment firms competing for deals in the upper ends of the markets. These industry players will have substantial pools of assets to deploy, which will likely lead to a preference for larger deal sizes. This could create more opportunities for niche strategies to generate alpha in smaller, less competitive areas of private markets where the scale of larger firms becomes a burden rather than an advantage.

The Trend of Asset Manager Consolidation Is Accelerating

Asset Manager to Asset Manager M&A Activity



Source: PitchBook, as of 12/7/2024.

Private wealth + private capital: An “evergreen” growth driver?

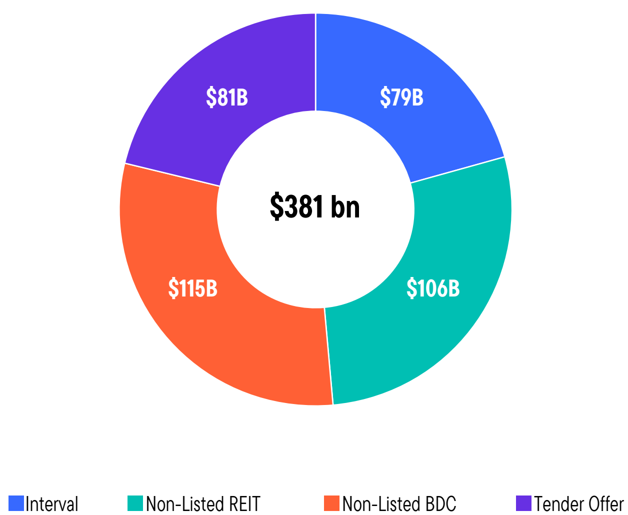
In recent years, we have witnessed a notable surge in private wealth advisors turning their attention towards private capital investments. The advent of new evergreen fund structures with lower investment minimums—such as interval, tender offer, non-listed BDC and non-listed REIT funds—has made private markets more accessible than ever before, with more than 230 of these types of funds launching in the last five years. While private-wealth-targeted funds are still a small portion of total private market AUM, the addressable market for private capital in private wealth portfolios is enormous. According to an estimate provided by UBS in their Global Wealth Report published on September 1, 2024, Global wealth is projected to be around $450 trillion, with approximately 90% of this wealth owned by individuals who have at least $100,000 in assets. If just 5% of this wealth were invested in private markets, it would amount to over $20 trillion in new capital.[4]

Greater wealth channel participation in private markets has other significant effects. We foresee a likely strengthening of the trend towards industry consolidation and fundraising concentration, as large brand-name asset managers with significant scale and well-resourced distribution channels are likely to be positioned to garner the largest share of flows. Additionally, the flow of new capital into new alternative fund structures will likely lead to a need for a provision of liquidity to those investors in future years, and therefore, potential growth for the secondary market.

Finally, if trillions in new capital begin to flow into private markets, the near-term effect is likely to be an increased competition for deals. However, it is also likely to spur growth in sectors that have seen a slowdown due to recent fundraising troubles, such a private equity, venture capital and commercial real estate.

Private Wealth in Private Assets Totals Nearly $400 Billion

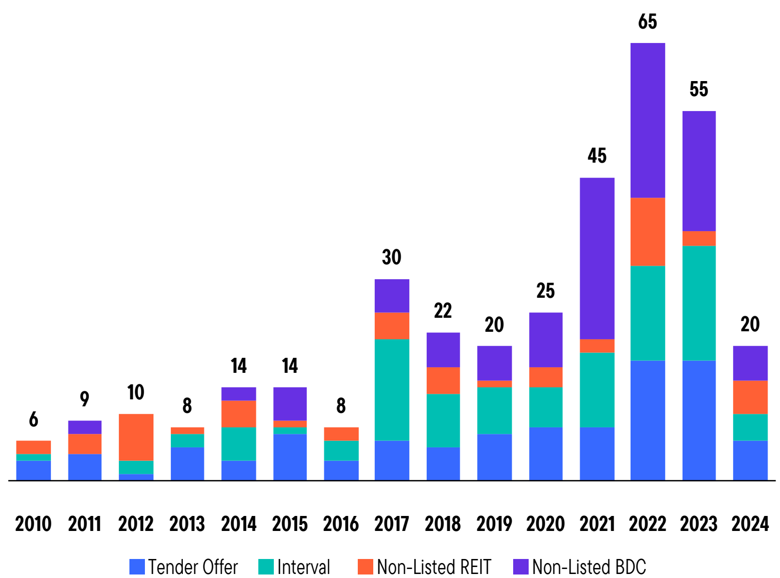
Total Assets of Private-Wealth-Targeted Funds



Source: PitchBook, as of 9/17/2024.

200+ Evergreen Funds Launched Since 2020

Number of Funds Launched by Type



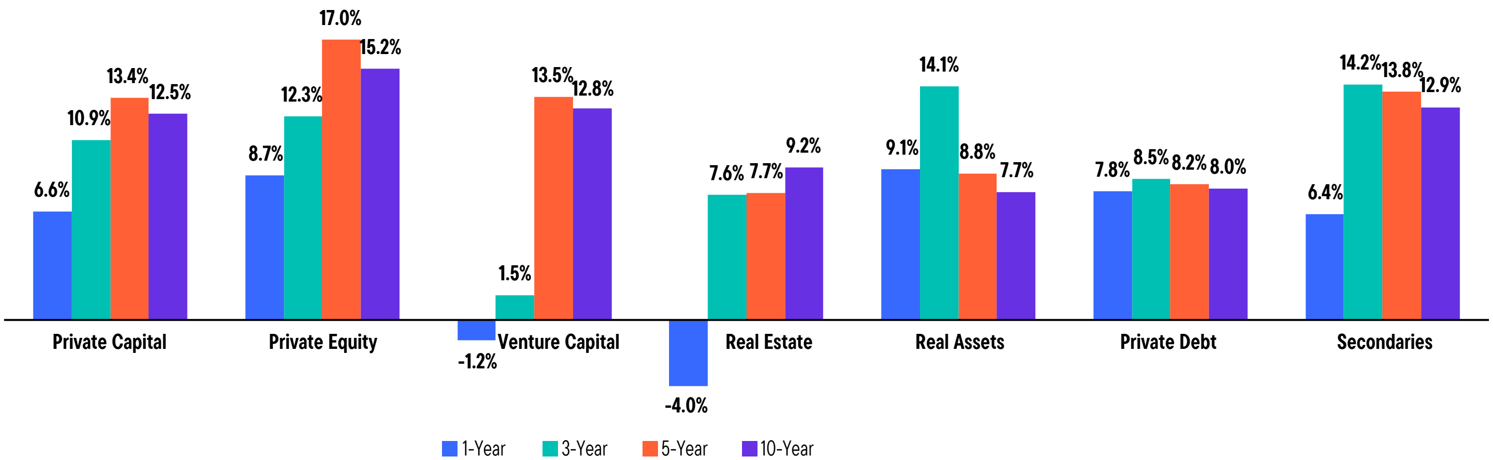
Source: PitchBook, as of 9/17/2024.

With a new dawn, strategy selection becomes even more critical

The 2022–2023 period created a sort of speed bump for private market allocations as asset owners worked through a liquidity traffic jam that is now starting to ease. Despite the challenges of the past few years, long-term returns of private assets have remained robust and the thematic drivers fueling private market growth have only strengthened further. However, in our view, the post-2021 private markets landscape is fundamentally changed and will require different approaches than in the past.

Despite Recent Slowdown, Long-Term Private Asset Returns Remain Robust

Horizon IRRs (%)



Source: PitchBook, as of 3/31/2024. Note: PitchBook's fund returns data is primarily sourced from individual LP reports, serving as the baseline for its estimates of activity across an entire fund. For any given fund, return profiles will vary for LPs due to a range of factors, including fee discounts, timing of commitments and inclusion of co-investments. All returns data is net of fees and carry.

Even during the “zero-gravity” era of ultra-low rates, quantitative easing, muted inflation risk and stable growth, manager dispersion was wide across each asset class. Given the resetting of private markets over the past several years, we think dispersion is likely to be even wider—making asset class allocation mix and manager selection even more paramount.

In private equity, we believe it will be necessary to find GPs who don’t rely on financial engineering to generate returns. Instead, due to the higher bar to exit, it will be necessary for managers to have established value creation resources for their portfolio companies and to help them forge a realistic path to exit.

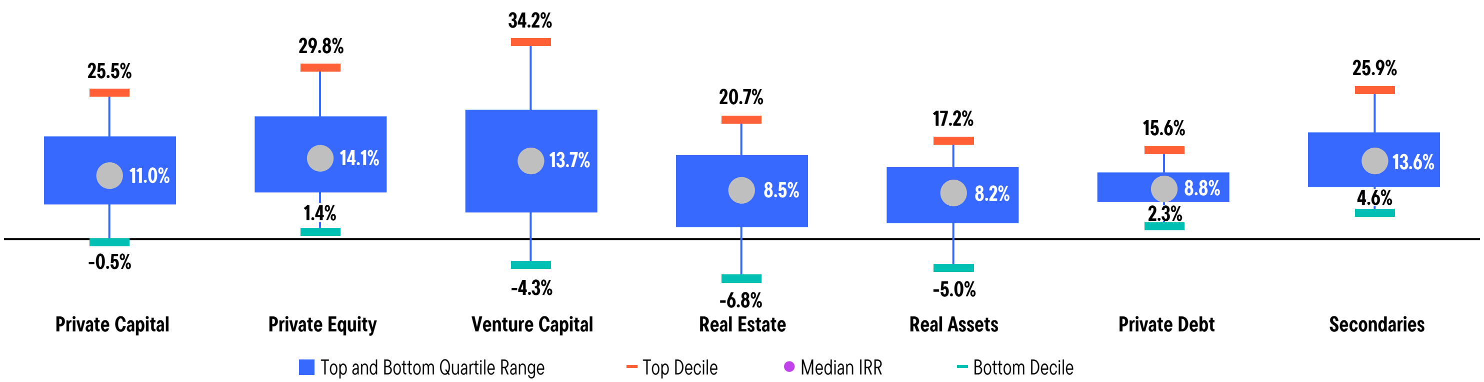
We also continue to believe secondaries provide a far more compelling value proposition than traditional private equity given the lopsided supply-demand dynamics that currently favor buyers. Furthermore, the secondary market is growing in depth and breadth, expanding well beyond traditional LP-led transactions, which can be very broad portfolios concentrated in large caps. Middle-market secondaries, while difficult to access, offer competitive valuations while single-asset continuation transactions allow for more targeted exposures than typical LP-led transactions. We believe this asset class deserves a greater allocation in private portfolios than in the past.

Within certain parts of private credit, the ability to lend via a “blank sheet of paper” on a primary basis is preferred in most instances. Terms in areas such as the core middle market have become compelling as a substantial volume of maturities come due over the next year in the US and negotiating power has shifted from borrowers to lenders. Furthermore, structurally higher rates create higher return potential but also greater stress on borrowers. This will require private credit managers to have robust underwriting capabilities, cycle-tested workout experience and the ability to manage complex credit situations to be successful.

Finally, in real estate, thinking beyond traditional sectors and selecting properties supported by thematic tailwinds will become increasingly important in an asset class challenged by the current macro environment.

Historically Wide Manager Dispersion Expected to Increase

Fund Performance Dispersion (Vintage Years 2005–2019)



Source: PitchBook, as of 3/31/2024. Note: PitchBook’s fund returns data is primarily sourced from individual LP reports, serving as the baseline for its estimates of activity across an entire fund. For any given fund, return profiles will vary for LPs due to a range of factors, including fee discounts, timing of commitments and inclusion of co-investments. All returns data is net of fees and carry.

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Implications of a shift in US politics

The results of the US election have given the second Trump administration a higher likelihood of successfully enacting its agenda. Notably, many of the key members nominated for the economic and financial policy making bodies come from both the private equity and hedge fund world.

Antitrust – Positive
Andrew Ferguson has been nominated to Federal Trade Commission Chair, replacing Lina Khan who has been focused on consumer protections and the growing power of the technology industry. He is likely to take a softer approach and return the agency to historical precedents around antitrust principles and reduced regulatory burdens around mergers and acquisitions. However, the larger deals within technology may remain under scrutiny, particularly where there is a perception of censorship.

Labor and immigration – Neutral
While Trump has focused on illegal immigration, if he resumes the work of his last administration to slow the International Entrepreneur rule, which provides temporary legal status to foreign entrepreneurs with promising startups, it could be a net negative for US private companies. On the other hand, there appears to be openness to preserving the H-1B visa program, which would create a larger talent pool for some startups.

Taxes – Positive
At a minimum, the corporate tax rate of 21% introduced in 2017 will remain in force, which will be supportive of portfolio companies that will rely more heavily on profit growth versus re-valuation to achieve exits. In addition, favorable tax provisions, such as carried interest and 1031 exchanges in real estate, will also likely remain.

Tariffs – Negative
If the Trump administration follows through on the proposed 10% tariff on all US imports and 60% from China, costs could climb in sectors that rely on foreign supply chains, narrowing the potential target pool for VC and PE firms.

Macro environment – Positive
Due to a number of potentially drastic policy shifts spanning labor, immigration, regulation and trade, we think the US economy will be in a continuous tug of war between pro-growth and pro-inflationary forces. The Fed and markets will likely continue to focus on each weekly data point for hints—with a Goldilocks scenario being the ideal outcome for private markets. So far, the conditions are leading to a normalization of the yield curve, which is often associated with a strengthening economy. If inflation can be kept in check and interest rates trend slowly downwards, this could create a more favorable environment for both higher valuations and an improving exit environment.

Sectors most impacted
Reduced regulation is a consistent theme across the sectors likely to be in favor. For example, AI will likely benefit from his prior executive order on “Maintaining American Leadership in Artificial Intelligence” and pledge to repeal the Biden administration’s AI Bill of Rights that requires more oversight. Similarly, Trump has been more supportive of cryptocurrencies relative to any of his predecessors. In terms of the banking sector, reducing regulatory burdens to help promote growth in lending as well as making the M&A environment more favorable are parts of the administration’s likely agenda. Lastly, it is likely that the parts of the Inflation Reduction Act focused on clean energy will be rescinded. However, since his stated plans have included increased construction of power plants and his push for coal in his first administration was unsuccessful, it is unclear exactly which type of plants will ultimately be favored.

Asset class outlooks

Private equity: A need to refocus on true value creation

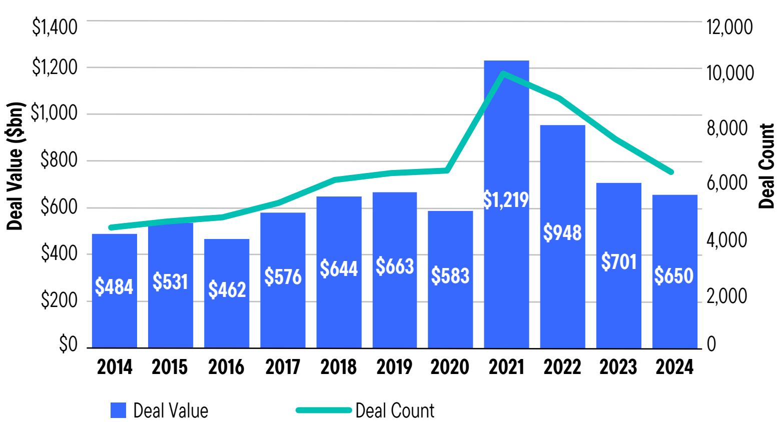
Encouraging signs, but still making up for lost time

In 2024, private equity showed some encouraging signs as deal activity reached $650 billion through the third quarter and was on pace to exceed $850 billion in value for the full year. That would make it the third highest level on record and a remarkable turnaround from the sharp decline seen in 2022. On the exit front, exits are on pace to reach $375–400 billion for the full year, returning to the more normalized state we saw before the frenzied years of 2020 and 2021.

Despite the encouraging rebound in exit values, it's important to note that total PE assets are markedly higher now compared to the pre-2020 period. Exit values, when looked at as a percent of total AUM in the category, indicate exits volumes near 10% are still far below the historical rate of >20%. In fact, due to a delay in exits, US PE holdings have grown by about 2,400 over the last five years and currently exceed 11,500 companies. At the current exit rate of about 1,200–1,400 per year, this represents an eight-year inventory, indicating a need for a substantial acceleration in activity to make up for lost time.[5]

Deal Activity Making a Meaningful Rebound

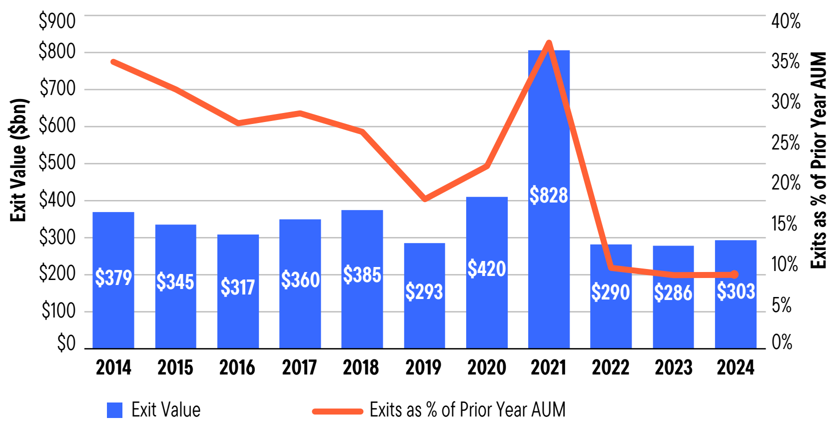
US PE Deal Activity



Source: PitchBook, as of 9/30/2024.

Exit Activity Needs to Accelerate Further

US PE Exit Activity



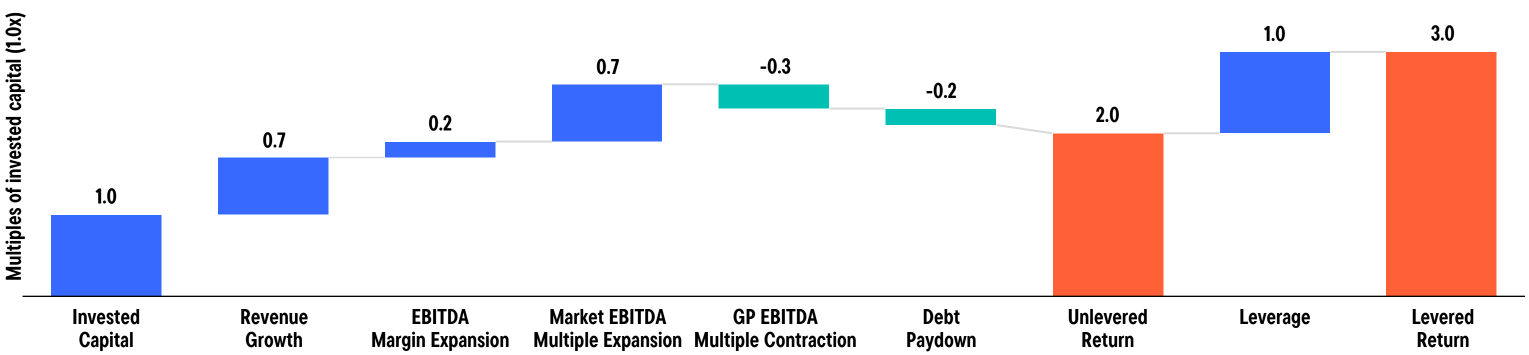
Source: PitchBook, as of 9/30/2024.

Leaning on leverage is a thing of the past

In the “easy money” era, the PE buyout industry predominately relied on financial engineering to drive portfolio company value growth, with a lesser focus on top- and bottom-line operational improvements. Between 2010 and 2021, leverage and market multiple expansion drove nearly 70% of investment returns for buyout deals. Today, the picture is markedly different: readjusting multiples and more expensive leverage suggest value creation through revenue and margin expansion is increasingly important. As financial engineering becomes a less viable driver of returns, we believe private equity investors will need to exercise more patience and identify managers with the demonstrated skill to generate true fundamental value from their portfolio investments.

In the “Easy Money” Era, Leverage and Multiple Expansion Drove ~70% of PE Returns

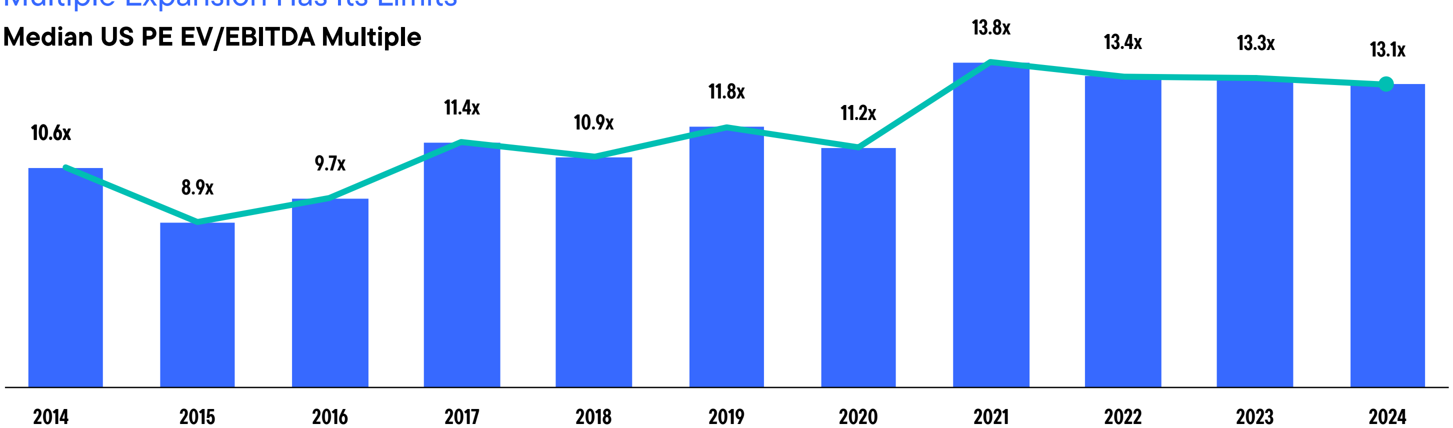
Drivers of Investment Returns for Realized Deals (2010–2021)



Source: SPI by StepStone. Sample includes 2,512 buyout deals that were entered on or after 1/1/2010 and exited on or before 12/31/2021.

Multiple Expansion Has Its Limits

Median US PE EV/EBITDA Multiple



Source: Q2 2024 US Private Equity Breakdown Summary Report. As of 6/30/2024.

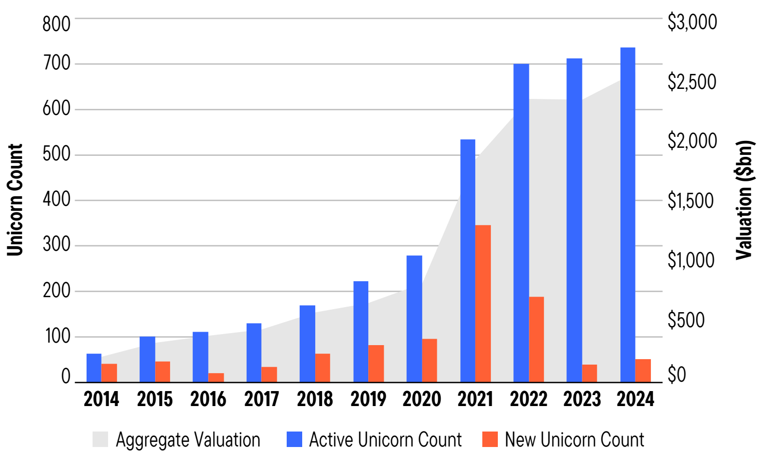
Venture capital continues to muddle along

While there have been encouraging signs in select companies related to artificial intelligence, the broader venture capital space continues to face a number of headwinds. There is stagnation in the growth of the $1+ billion unicorn market, while exits for existing unicorns are very hard to come by. Once again, stubborn valuations stand in the way of liquidity events for many LPs as GPs are inclined to wait for what they believe will be a more favorable environment to seek liquidity. As we see the domino effect of liquidity pressures across private markets unfold, we expect VC to remain under pressure for some time.

Relative velocity of value creation (RVVC), as measured by the yearly growth rates between funding rounds, has dropped sharply from decade-high levels seen in 2021, landing below the pre-2020 period. Similarly, the percentage of flat and down rounds is at a decade high with a combined total of 26.6%.

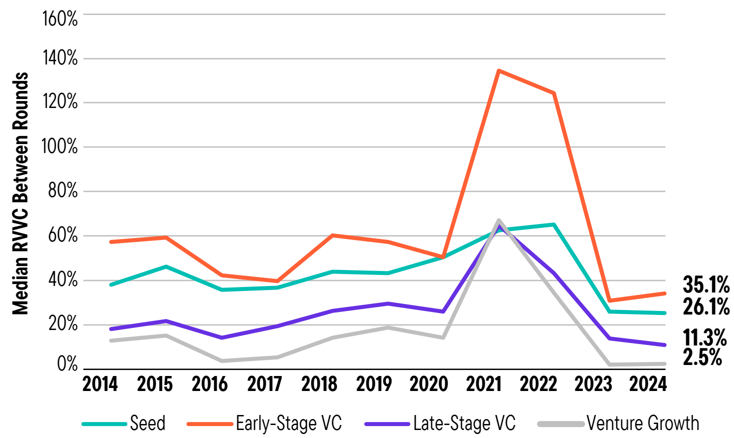
Stagnation in VC Market Has Locked Up Trillions in Capital

Unicorn Count and Aggregate Post-Money Valuation



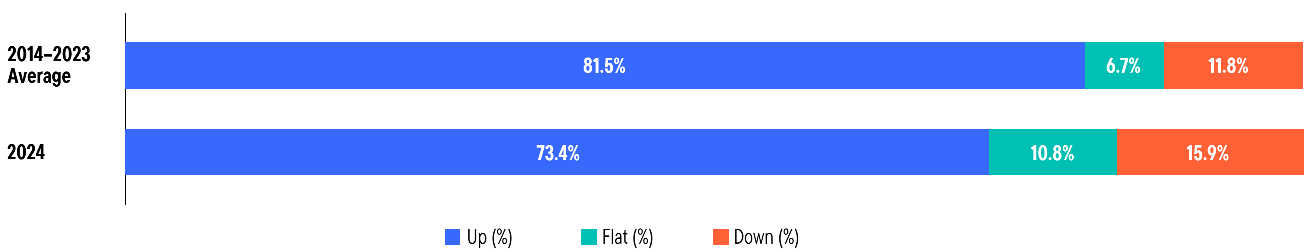
Previous High Valuations Limiting Further VC Gains

Median Relative Velocity of Value Generation by US VC Stage



Highest Rate of Flat and Down Rounds in 10 Years

Share of US VC Deal Count by Up, Flat and Down Rounds



Source: PitchBook, as of 9/30/2024.

The need to select fewer, best-in-class investments

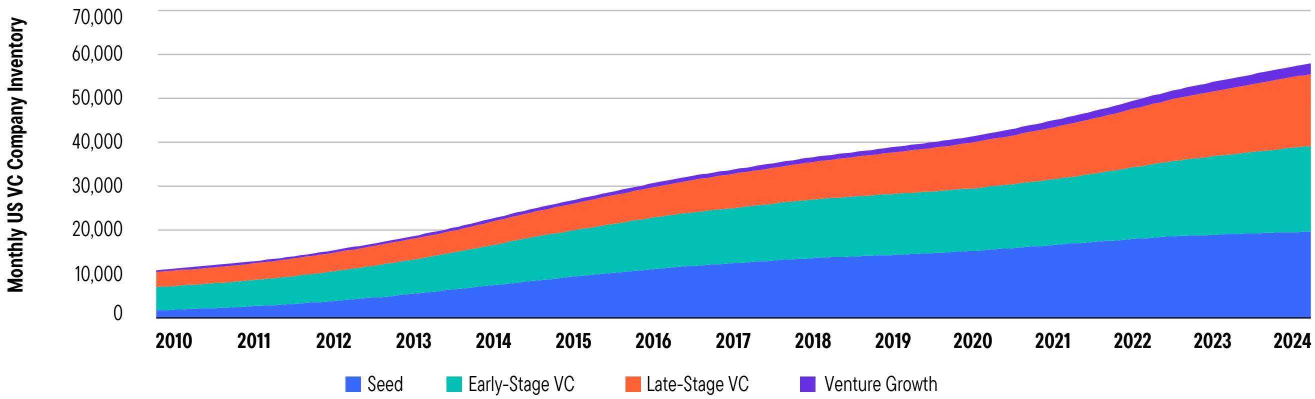
According to PitchBook, there are more than 57,000 VC-backed companies with a cumulative value of more than $4 trillion—double the $1.7 trillion valuation just five years ago.[6] We have seen some asset allocators build venture portfolios that essentially mirror this immense market. The strategy is to invest in hundreds of companies across various sectors in the belief that a handful will achieve an exit and provide returns through a sale or IPO. But, with a challenging exit environment, this beta-like approach to VC investing needs to shift.

Looking ahead, we argue that investors should focus on significantly fewer, but higher-quality VC investments. Moreover, investors should have a real strategy as to how to drive exit potential. The selection criteria for VC companies need to be significantly elevated in today's environment. After conducting robust due diligence, more capital should be committed to the strongest companies, rather than casting an immensely wide net with smaller allocation amounts.

We argue that it's vital to focus on what we term "tier zero" companies: those at the top of their respective fields with a clear path to an exit event. Furthermore, by concentrating on a smaller number of these high-potential investments, VC managers can provide strategic capital and hands-on support, guiding companies through growth and the pre/post-IPO journey. Given the pressures in the market, 2025 will likely be an opportune time to invest in "tier zero" companies at investor-friendly valuations.

Few Companies Have Viable Exit Plans in the Enormous VC-Backed Market

US VC Company Inventory



Source: PitchBook, as of 9/30/2024.

Investment implications

The private equity and venture capital playbooks of the past decade, where one could financially engineer a return, are becoming less effective. In today's environment, we believe investors will be rewarded for partnering with managers who have true value-creation expertise and are concentrated on a narrower set of best-in-class investments with a clear plan for exit.

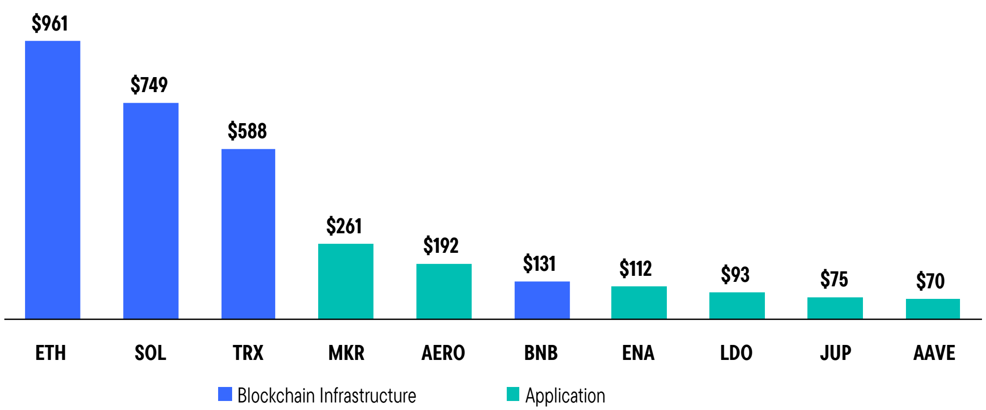
IN FOCUS
A blockchain VC revival in 2025?

Although largely unnoticed, the crypto and blockchain universe has experienced significant positive developments despite strong regulatory headwinds and negative investor sentiment over the past several years. Many traditional financial institutions—such as BlackRock, Fidelity Investments, JP Morgan and Franklin Templeton—have embraced blockchain technology in a number of ways, from getting the SEC to approve cryptocurrency ETPs to the tokenization of mutual funds that trade and settle on-chain. Decentralized finance (DeFi) protocols have enabled trillions of dollars in transactions, stablecoins have tokenized hundreds of billions in fiat currency and blockchain systems have achieved transaction volume and efficiency milestones that eclipse traditional payment systems.

With the new US administration appearing to be more amenable to cryptocurrency and blockchain-related technologies, we believe institutional investors will revisit the potential of blockchain VC investments. Many of the earlier-stage VC projects funded over the past several years are now in advanced stages of development or are already generating revenues. For example, blockchain networks Ethereum and Solana, which charge fees for developers to build applications on their platforms, are on pace to generate annualized revenues of $960 million and $750 million, respectively. At the same time, many DeFi and Web3 related applications, which are built on top of blockchain networks like Ethereum, are also starting to generate meaningful revenues.

Blockchain Technologies Already Generating Billions in Annual Revenues

90-Day Annualized Revenues ($mn)



Source: Coinbase Guide to Crypto Markets Q4 2024. Token Terminal, MakerBurn, DeFiLlama, Tronscan.

Private equity secondaries: Deepening and diversifying

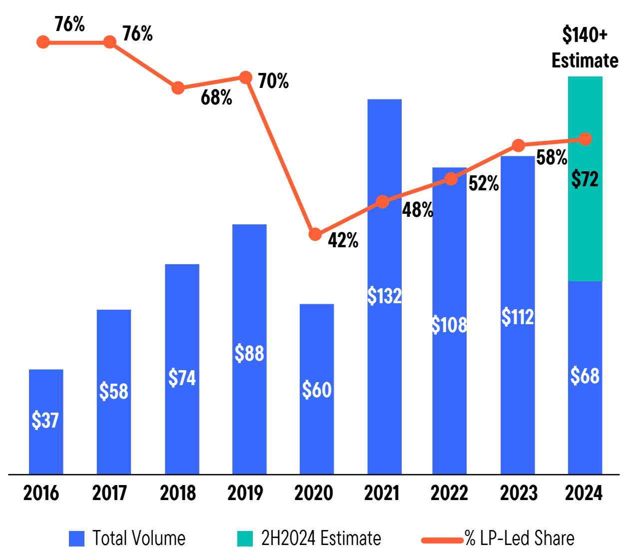
Secondary market growth continues as LPs and GPs search for liquidity

Secondaries are becoming a structurally important part of private capital markets, with secondary market transaction volume predicted to surpass $140 billion in 2024—the highest level on record. Pricing has recovered from the lows of 2022 but still offers competitive discounts compared to historical levels, a dynamic which we expect to spur even more activity. Of note, GP-led transactions represented roughly 40% of volume in the first half of 2024. We are seeing signs that this part of the secondary market is continuing to mature, as evidenced by robust transaction volume and complexity as well as better alignment of interests.

When assessing the maturity of the secondary market, turnover ratios provide an interesting context. The proportion of secondary market transaction volume compared to private market AUM has hovered around 0.5% to 1.0%, a seemingly low level.[7] However, even an uptick to 1.5% or 2.0% turnover would equate to a significant increase in volume.

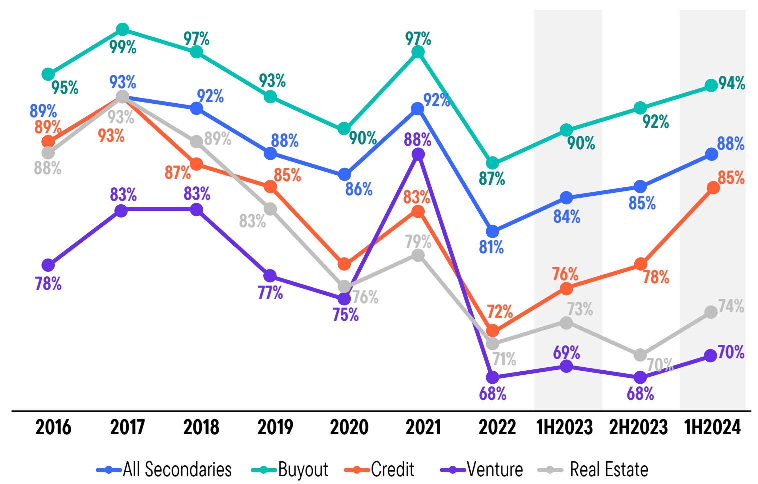
Activity Surpassed 2021 Peak

Secondary Transaction Volume ($bn)



Price Recovery Has Spurred More Transactions

Secondary Pricing for LP Portfolios (% NAV)



Source: Jefferies 1H2024 Global Secondary Market Review. Transaction pricing data is sourced from Preqin database and is self-reported and/or gathered from industry professionals including fund managers, investors and service providers. Data as of July 2024. There is no assurance that any projection, estimate or forecast will be realized.

Secondary market becomes an essential exit option

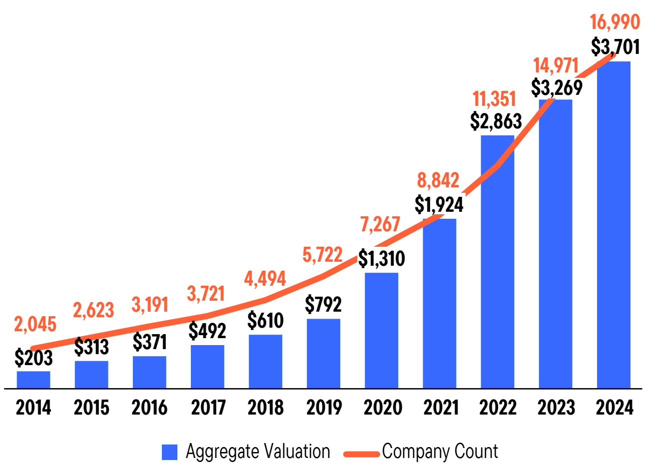
Exits in the form of IPOs or M&A have been in a serious drought, constraining traditional routes for cashing out investments. As evidence, we note the massive market of nearly 17,000 mature VC-backed companies representing $3.7 trillion in aggregate valuation. For the largest VC companies with valuations greater than $1 billion, holding periods have stretched to more than eight years—further increasing the pressure to return capital to LPs.

Against this background, secondary market investors have become crucial in maintaining market fluidity. We expect secondary market activity for LP-led stake sales and GP-led deals to remain high.

Many investors behaved pro-cyclically during the “zero gravity” period that abruptly ended in 2022. Primary commitments to direct buyout strategies grew on a year-over-year basis. Now, with the advent of extended J-curves and trapped assets, many investors are looking to secondary strategies to provide a quicker path towards return realization and to access what we believe are more compelling risk-adjusted returns and diversified portfolios of more seasoned assets.

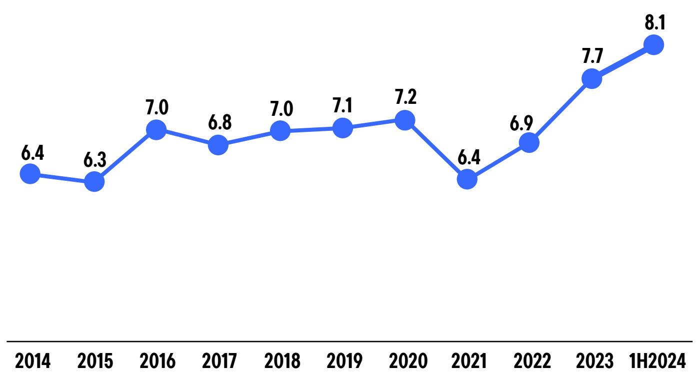
Massive Mature VC Market with Limited Liquidity Options

Mature VC-Backed Company Count and Aggregate Post-Money Valuation ($bn)



Timelines of VC-Backed Companies Extending

Median Time Since First VC Round for Active US Unicorns (Years)



Source: PitchBook. Exit Alternatives for US VC Report 3Q2024. Data as of 6/30/2024. Note: “Mature” VC-backed companies are those that raised their first VC round eight years ago or earlier.

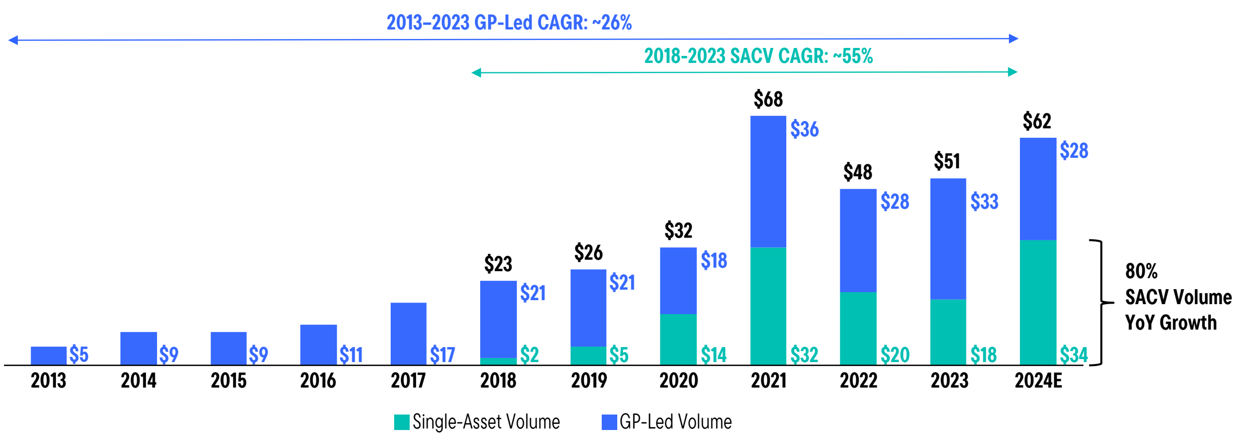
Single-asset continuation deals: Growing fast and undercapitalized

The GP-led market has grown ~26% per year, or 10x from 2013–2023 as sponsors continue to utilize continuation vehicle transactions to re-invest in their highest-quality companies. Within this market segment, single-asset continuation vehicles (SACVs) have grown even faster at a 55% per year, even though limited dry powder has been a headwind for dealmaking. As a result, the SACV market is significantly undercapitalized: we estimate that the supply and demand capital imbalance in the SACV market is five to one in favor of buyers.

GPs have shown a willingness to invest higher levels of their own capital in SACVs. Typical sponsor commitments in SACVs now range from 5% to 15% of total deal value, versus 1% to 3% in traditional LP-pooled vehicles.[8] We interpret this greater alignment of interests as a supportive sign of market maturity. We believe this rapidly expanding yet underfunded market presents a unique opportunity to individually select standout companies and build carefully curated secondary portfolios with the potential to deliver strong absolute and risk-adjusted returns versus primary private equity investments.

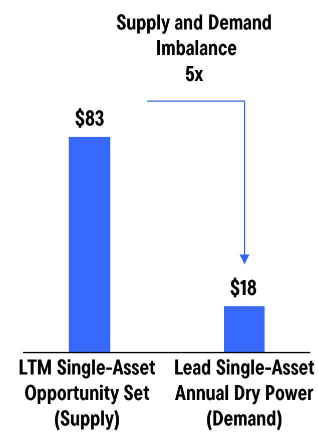
SACVs See 55% Annual Growth Since 2018

Total GP-Led and SACV Transaction Volume ($bn)



5x More Supply than Demand

SACV Supply and Demand



Source: Preqin, Evercore and Lexington Partners. 2024 estimates as of May 2024. There is no assurance that any projection, estimate or forecast will be realized.

Investment implications

The global secondary market still represents a relatively small slice of the broader private equity market, despite tremendous growth in recent years and remains undercapitalized against increasing demand for liquidity solutions. As more LPs and GPs come to market, we expect the opportunity set for secondaries to expand and diversify further with more middle-market PE deals and non-traditional transaction types like SACVs.

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Middle-market secondaries

Moving down the market cap spectrum can open a compelling opportunity set in secondary markets. Over the last seven years, $1.5 trillion has been raised in middle-market buyout funds with an expected turnover ratio of ~10–12%. Despite the large amount of capital, the middle-market buyout secondary opportunity set has historically been difficult to access as it is highly fragmented and typified by sector or segment specialists.

The middle market encompasses a large universe of small- and mid-cap companies with strong growth potential, generally lower purchase price multiples, modest leverage and many areas for value creation since, in most cases, a private equity fund will be the company's first institutional owner. There are multiple levers for the GP to pull to drive value that secondary buyers can layer into their underwriting.

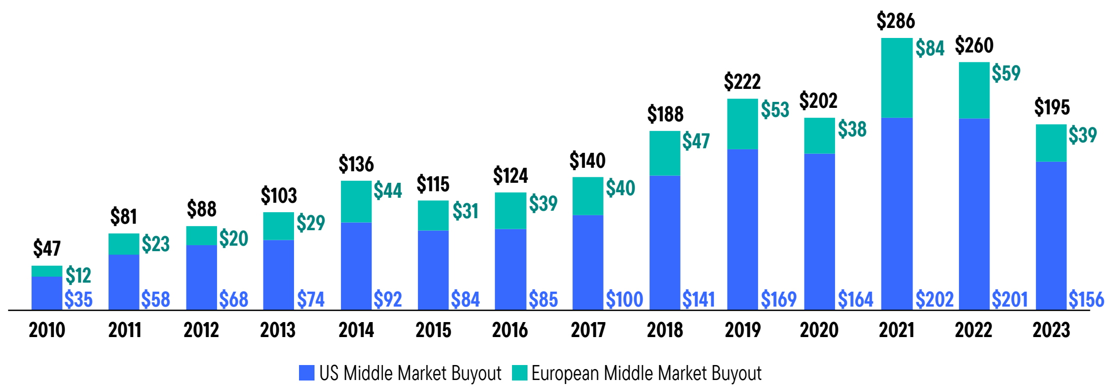
In our experience, high-quality portfolios with middle-market buyout funds tend to be comprised of mostly private companies that GPs have marked conservatively and are poised for appreciation. Having strong GP relationships and information asymmetry helps secondary managers take a differentiated view in constructing attractive portfolios at a compelling price.

While not exempt from geopolitical risk, sustained high interest rates, or cybersecurity risks, middle-market companies can be insulated from certain macro factors given they do not rely heavily on the IPO market for exit. Importantly, they also have ample availability of financing with the influx of private credit capital in recent years.

A compelling but Hard to Access Market

Key Statistics and Capital Committed to Middle Market Buyout Funds ($bn)

$1.5 trillion Capital committed to US and European middle market buyout funds from 2017–2023.	**56%** Average middle market buyout share of all US PE capital raised over 10 years.
12.8x vs. 16.0x Average EV/EBITDA of US and European middle market buyout vs. mega buyout deals from 2019–2023.	**4%** IPOs as percentage of total exits over last 10 years. Exits to corporates and sponsors represented 41% and 55%.



Source: ThomsonOne Refinitiv, Pitchbook and estimates of Lexington Partners as of January 2024. There is no assurance that any projection, estimate or forecast will be realized.

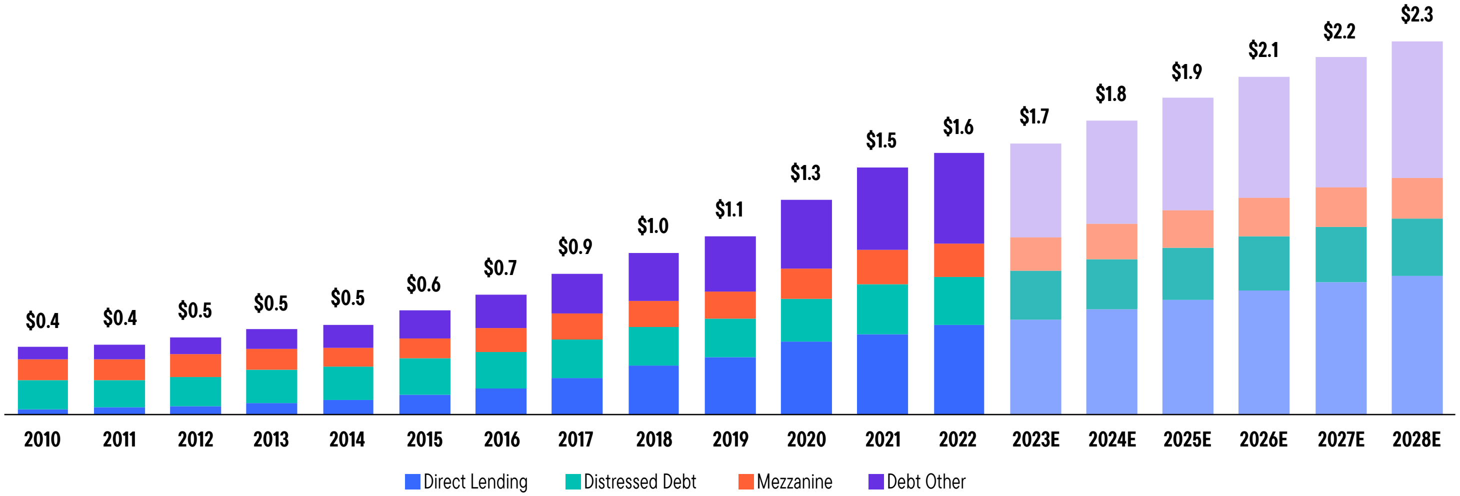
Private credit: Avoid the crowds

The private credit wave is coming to new markets

Despite all the industry attention around the rapid growth of private credit in recent years, the asset class represents only 13% of private market assets and about 3% of the average institutional asset allocation. As a result, the runway for a larger share in investors' portfolios looks promising. PitchBook expects private credit to reach $2.3 trillion by 2028—or even $3.5 trillion in the optimistic case that the current structural tailwinds of elevated rates, bank retrenchment and a stable macro environment persist.

Private Credit Is Expected to Become $2.3 Trillion Market In Next 5 Years

Private Credit AUM ($tn)

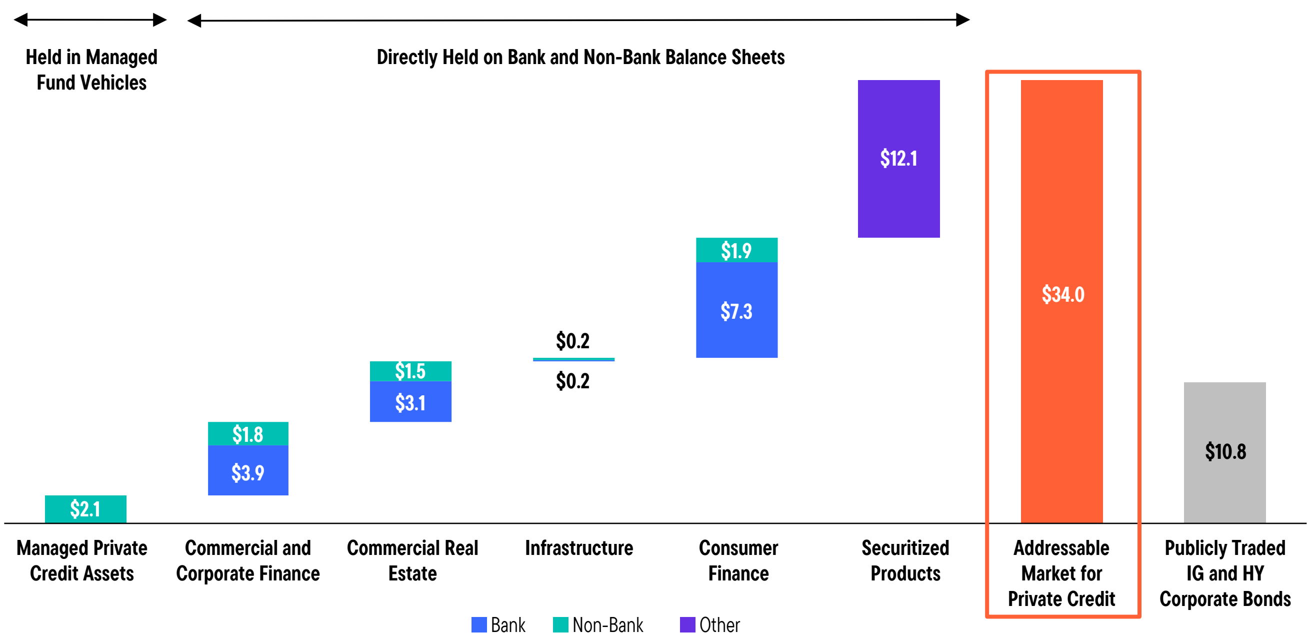


Source: PitchBook. Private Capital's Path to $20 Trillion. AUM and forecasts as of 4/19/2024. There is no assurance that any projection, estimate or forecast will be realized.

From a different perspective, the overall size of private credit assets is just a sliver of the entire fixed income market, leaving room to grow and diversify into other areas of the global lending universe. McKinsey & Company indicates that the potential market size for private credit in the US could exceed $30 trillion, assuming non-bank lenders move more aggressively into other types of borrowing, such as commercial real estate, consumer finance and securitized products.

Private Credit Has Significant Room to Expand to Other Lending Markets

US Lending Balance in 2023 ($tn)



Source: Preqin, Securities Industry and Financial Markets Association, McKinsey & Co.

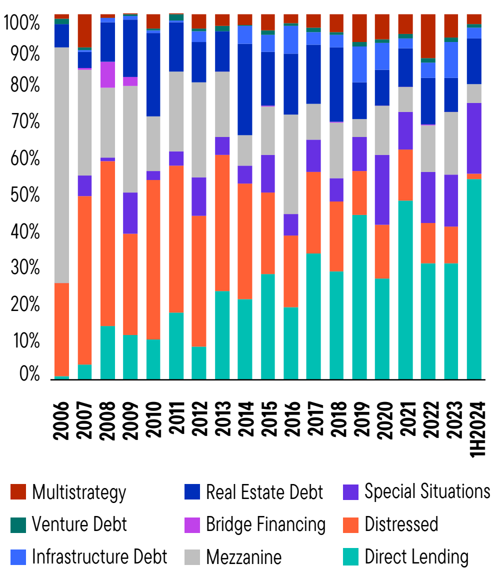
New fundraising concentrated in direct lending and mega funds

Despite the potential to take more share in new lines of lending, 2024 delivered increased crowding and deal competition in certain areas of private credit. In what appears to be a form of "flight to safety" behavior, direct lending (DL) gained the vast majority of flows in the first half of 2024, posting the highest share in 15+ years. Taking a closer look at DL flows, we see significant concentration into mega-sized funds.[9] Similarly, we see a major preference for experienced managers, or those with three prior funds or about 12–15 years' experience. Over 70% of flows went to managers with a track record that started before the 2008 global financial crisis—which seems prudent, given that structurally higher rates are likely to increase stress on borrowers.[10]

With large pools of money from mega-sized lenders competing in the sponsor-focused, large end of the DL market, we believe this area of private credit is becoming increasingly crowded and competitive. Going down market to the core middle market space may prove to be more fruitful due to less competition for deals. Furthermore, we believe different categories and geographies of private credit may also present more compelling opportunities in 2025.

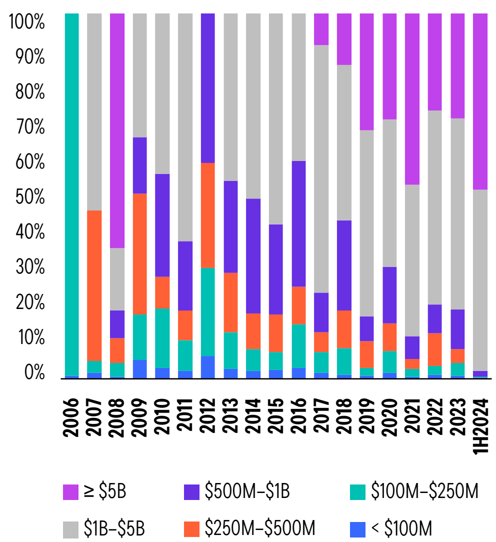
DL Share Highest in 15 Years

Share of Private Credit Capital Raised by Type



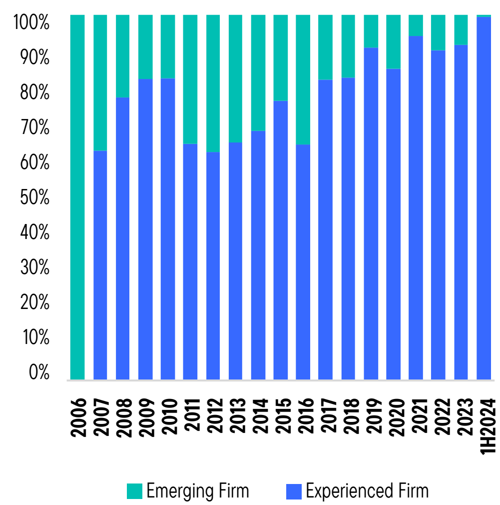
LPs Move to Largest Funds

Share of DL Capital Raised by Fund Size



Experienced Managers Dominate Flows

Share of DL Capital Raised by Manager Experience



Source: PitchBook. Global Private Debt Report. Data as of 6/30/2024. Experienced firms defined as those with more than 3 direct lending funds with a track record.

Beyond direct lending: CRE and bank stress are an opportunity for private credit

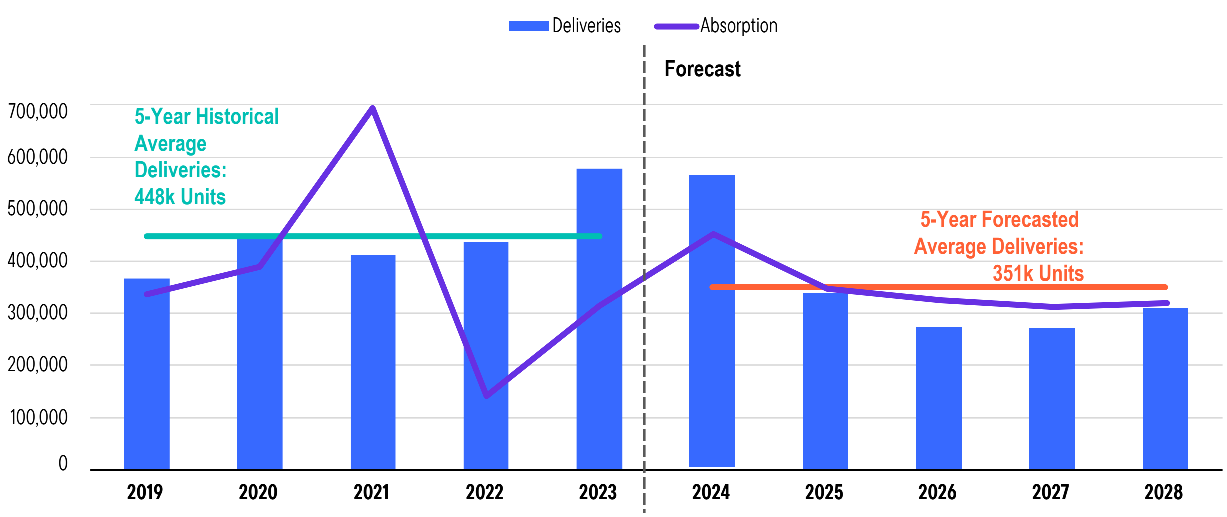
Commercial real estate (CRE) debt is an area in which we see less competitive pressures due to a number of negatives and unknowns overhanging the asset class at the moment. While the office sector is clearly challenged, we see other sectors with supportive lending tailwinds.

Of the $5.9 trillion of CRE debt outstanding, 50% is held at banks and over $3 trillion needs to be refinanced in the next 3 years.[11] Smaller, regional banks have historically been large lenders to CRE, accounting for 70% of US bank CRE debt holdings in 2024.[12] However, regional banks are likely to significantly pull back from all areas of CRE lending given their stressed office loan portfolios and the fallout from 2023 bank failures. In fact, we believe regional banks may find it challenging to lend to CRE borrowers in any substantial volume over the next five years. This dynamic creates a significant void for borrowers in need of credit and provides an opportunity for alternative lenders.

Multifamily is a particularly bright spot within the CRE debt space. After deliveries peaked during a COVID-related surge, levels are expected to decline over the next 12 months as construction starts fell after banks largely exited the market. From 2025 to 2028, absorption is expected to remain higher than supply growth.

Multifamily Lending: Supported by Positive Supply-Demand Fundamentals

US Multifamily Deliveries and Absorption

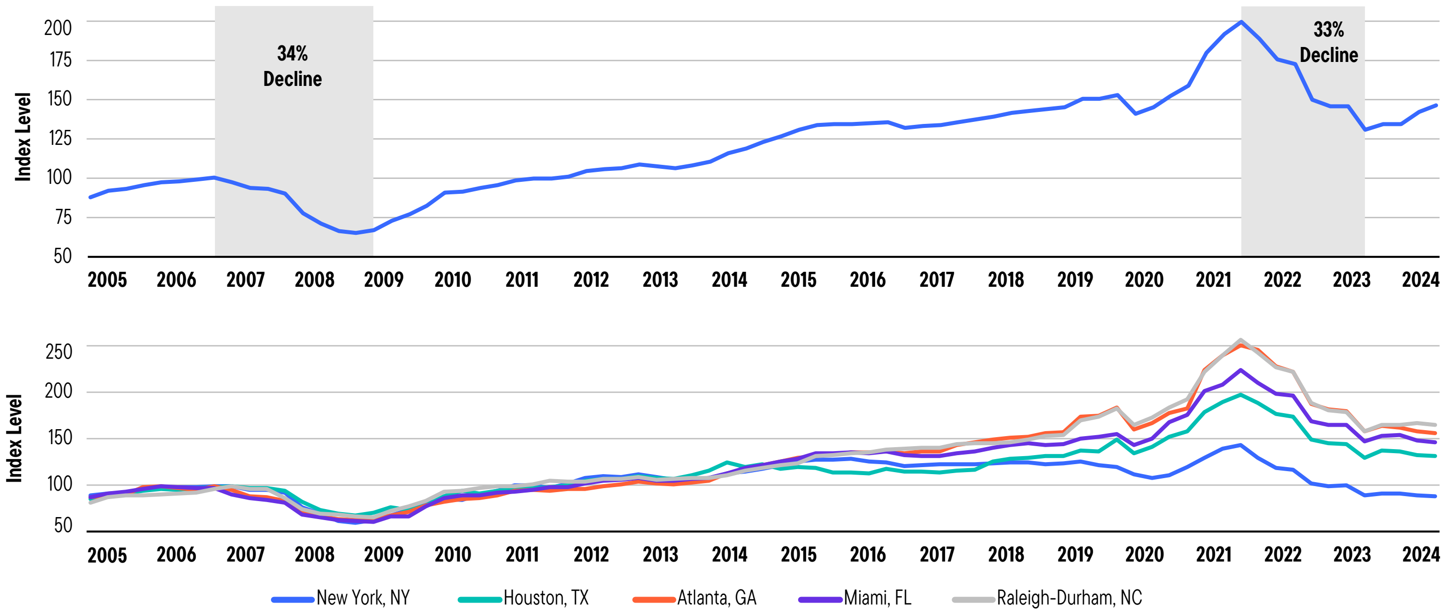


Source: Costar US Multifamily Report, as of 9/30/2024. There is no assurance that any projection, estimate or forecast will be realized.

In addition to favorable supply-demand dynamics, multifamily pricing is also supportive of lending opportunities. Values have declined by roughly 30% from their peak in Q4 2021, on par with the decline seen during the global financial crisis. Peak-to-trough price declines vary by market, but sought-after cities—including New York City, Houston, Atlanta, Miami and Raleigh—are down more than 30%, placing much of the pricing pain squarely in the rearview mirror. Together, we expect these factors to provide tailwinds for private lenders to the multifamily sector.

Resetting Multifamily Valuations Creates Ideal Entry Point for Lenders

Green Street Apartment Commercial Property Price Index (Top 50 US Markets Average & Select Regions)



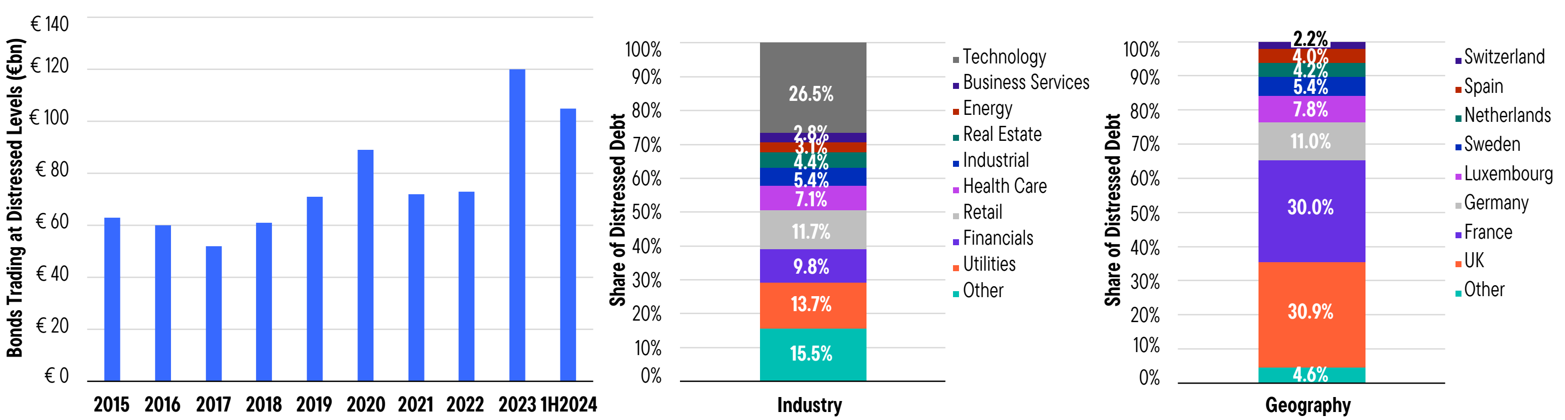
Source: Green Street, as of 9/30/2024.

Going global: Europe's burgeoning distressed market

With interest rates still elevated globally, the European market for stressed and distressed credit has grown to around €104 billion, based on the share of leveraged loans and high-yield bonds trading above 12% yield.[13] This is approximately double the long-term average and excludes the substantial bilateral bank loan and direct lending market. Unlike many past cycles, there is currently a diversity of opportunities across multiple sectors, some of which have historically been defensive, such as food producers, telecommunications, grocery retail and health care. Included in the opportunity set are recent deals with large sponsor equity commitments as well as subordinated debt, which implies a low loan-to-value through our preferred part of the capital structure.

Unlike Previous Cycles, Broad Opportunity Set Allows for Constructing Well-Diversified Portfolios

European Distressed Debt Size and Composition



Source: Alcentra, as of 6/30/2024. The universe is defined as capital structures with high yield bonds or loans in excess of €100 million nominal value, trading at or above a 12% yield to maturity.

Europe's structural differences favor private creditors

While the environment in the US has become increasingly competitive, Europe's private debt markets have several structural differences that may make the region less prone to overcrowding and creditor-on-creditor violence.

In the realm of leveraged loan markets, a notable distinction between Europe and the US is the use of whitelists. A whitelist is a document, prepared by the borrower, that regulates which investors are allowed to directly invest in leveraged loans of an issuer. According to a recent study by Reorg Research, 92% of European leveraged loans incorporate the use of a whitelist.[14] They apply in both primary syndication and secondary trading and exist to restrict access to deals to a specific group of investors. Distressed debt funds are typically excluded in order to prevent them from gaining control of the business in a restructuring. The impact of a whitelist is particularly felt during times of issuer underperformance: primary investors often seek to exit, but are unable to sell to the natural universe of opportunistic buyers. As a result, competition for leveraged loan assets in secondary trading is reduced and entry prices are cheaper for those that are included on the whitelist.[15]

In terms of the risk of creditor-on-creditor violence, legal frameworks in Europe play a crucial role in maintaining a stable environment for debt investors. For instance, domestic laws in countries like the UK impose rigorous scrutiny on restructuring transactions and limit the use of aggressive tactics. European courts, particularly in the UK, have been known to reject coercive practices such as exit consents, viewing them as abuses of power. New formal restructuring procedures have also been introduced across Europe, providing greater protection and judicial oversight. These procedures make it challenging to confer disproportionate benefits to small creditor groups, thereby reducing the risk of creditor-on-creditor violence and ensuring a more predictable investment climate.

Investment implications

As the upper end of the US direct lending space has become increasingly crowded and many asset owners have built out their core exposure, investors may want to look to different private credit categories and geographies to both diversify and improve the return potential in their private debt allocations. CRE debt—particularly for multifamily properties—presents an especially compelling opportunity thanks to favorable pricing and supply-demand dynamics. Similarly, Europe's smaller, less competitive private debt market appears to be expanding with opportunities across a wide spectrum of countries and industries.

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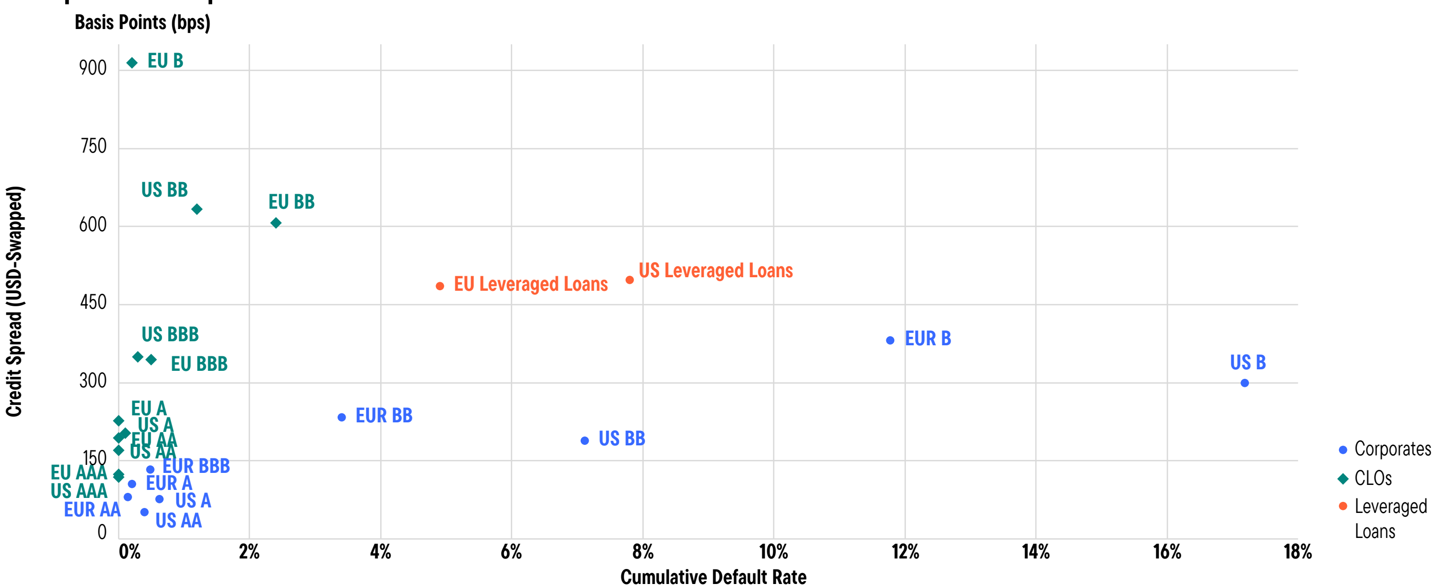
Opportunities outside the private credit wave

In 2024, collateralized loan obligation (CLO) markets proved to be resilient even in the face of a higher-for-longer rate environment. Global CLO new issuance surged last year, reaching all-time highs in both the US and Europe of approximately $200 billion and €50 billion, respectively.[16] This issuance trend is likely to continue if we see an expected increase in leveraged loan activity due to lower interest rates and a recovering M&A environment.

While CLOs are often overlooked, we believe their unique features can act as an opportunistic credit holding to complement fixed income or private credit allocations. CLOs can offer competitive total return potential due to their floating-rate nature and competitive yields. Furthermore, due to their structural protections, CLO default rates have historically been lower than similarly rated corporates. In 2025, we believe the investment environment for CLOs is more supportive than in years past given the expectations for potentially lower interest rates, minimal defaults due to a healthy economic backdrop and the progress already made on fighting inflation.

CLOs Have Offered Competitive Yields with Low Default Risk

Comparison of Spread and Cumulative Defaults of Debt Instruments



Past performance does not predict future returns. Returns may increase or decrease as a result of currency fluctuations.

Spread sources: All spreads data as of 9/30/2024. All assets swapped to USD SOFR with floor added where relevant. For CLOs: Citi Velocity secondary spread data. For Corporates: : ICE BofA AA and Single-A US Corporate Index (C0A2, C0A3), ICE BofA BB and Single-B US High Yield Index (H0A1, H0A2), ICE BofA AA, Single-A and BBB Euro Corporate Index (ER20, ER30, ER40) and ICE BofA BB and Single-B Euro High Yield Index (HE10, HE20). For Loans: Credit Suisse Leveraged Loan Index and Credit Suisse Western European Leveraged ex-USD Loan Index, 3-year discount margin. Cumulative historical default rate sources: For CLOs: S&P Ratings Services, Ratings Direct, 2023 Annual Global Leveraged Loan CLO Default Study and Rating Transitions as of June 2024. Includes all US cash flow CLO tranches ever rated from 1996 to 2023. Includes all European cash flow CLO tranches ever rated from 2001 to 2023. Default rate = number of ratings that had ratings lowered to D/total number of ratings. For Corporates: S&P Global Ratings Credit Research & Insights, US & Euro Corporate 5-year cumulative average default rate as of 12/31/2023. For Loans: S&P Global Market Intelligence, 5-year cumulative US and EU leveraged loan index default rates based on average monthly LTM default rates on principal amount as of 12/31/2023.

Commercial real estate: Foundationally sound but slowly starting a new cycle

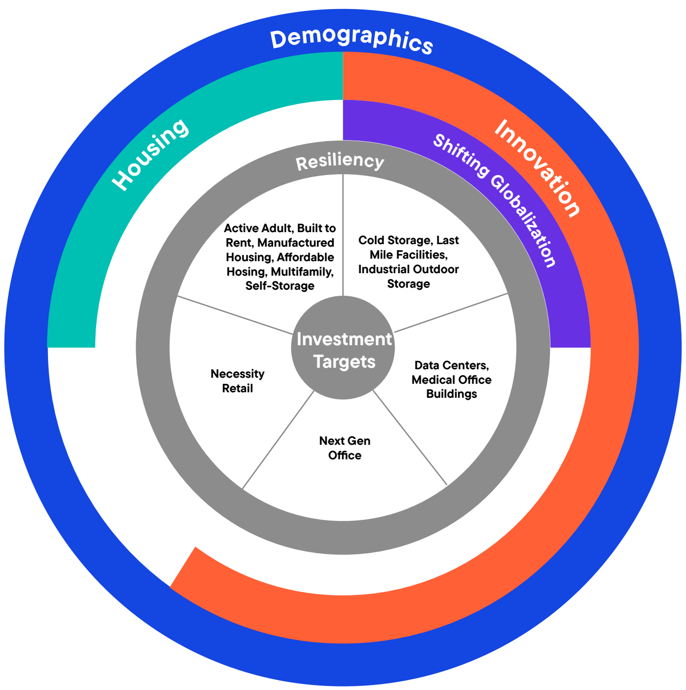
Hints of optimism after a period of pressure

A deep freeze set into the commercial property market starting in 2022, when the Fed implemented a hiking cycle which culminated in the highest benchmark rate in more than two decades. While this recent period has created some challenges for CRE, notably an adjustment in values, we believe it's important to look at the downturn from a historical perspective. US CRE investments have produced positive returns in 41 out of the last 46 years, averaging approximately 9.0% annually.[17]

At inflection points such as this, a thematic approach becomes vital in choosing sectors that can benefit from long-term secular tailwinds. We have identified five key themes that we believe can help build resilient long-term real estate portfolios. These themes are powerful long-term catalysts for real estate demand and can offer investors a multitude of opportunities across different risk and return horizons. Importantly, we believe these themes harness some of the fundamental drivers of economic activity and will remain immutable as demand drivers for decades to come.

Secular Drivers of US CRE Growth Remain Strong

Major US CRE Investment Themes



Based on the views of Clarion Partners, as of 9/30/3024. Subject to change.

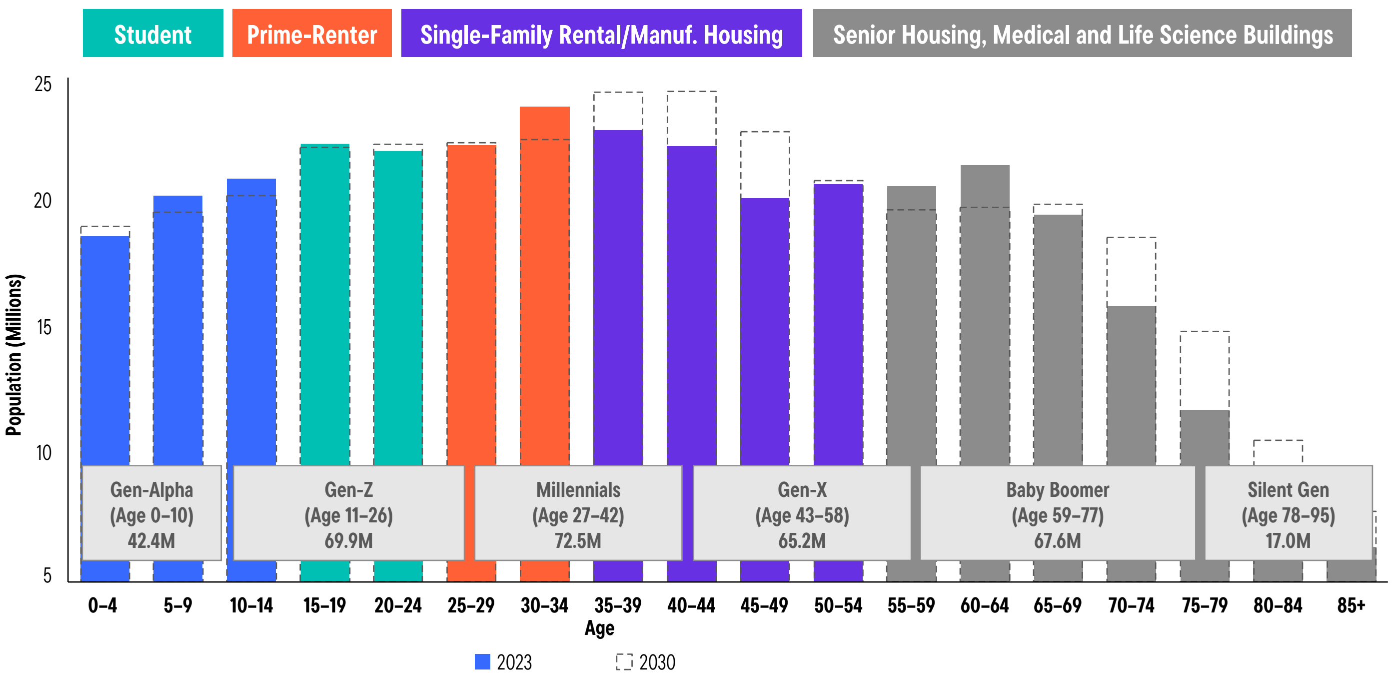
Demographics: A fundamental driver for real estate

In the US, the varying demographic cohorts create different patterns of income, spending and demand, which can be utilized in assessing and creating real estate investment opportunities.

For instance, as the millennial generation transitions to middle age and the cohort forms more families, we see structural tailwinds for affordable types of housing like single family rentals, multifamily and manufactured housing. Similarly, as the baby boomers continue to age and their health care and living needs evolve, we see a structural need for real estate development in property types like senior housing, medical office buildings and life science facilities.

Understanding Shifts in Demographics Can Help Target Investment Opportunities

US Population by Generation and Relevant Real Estate Theme



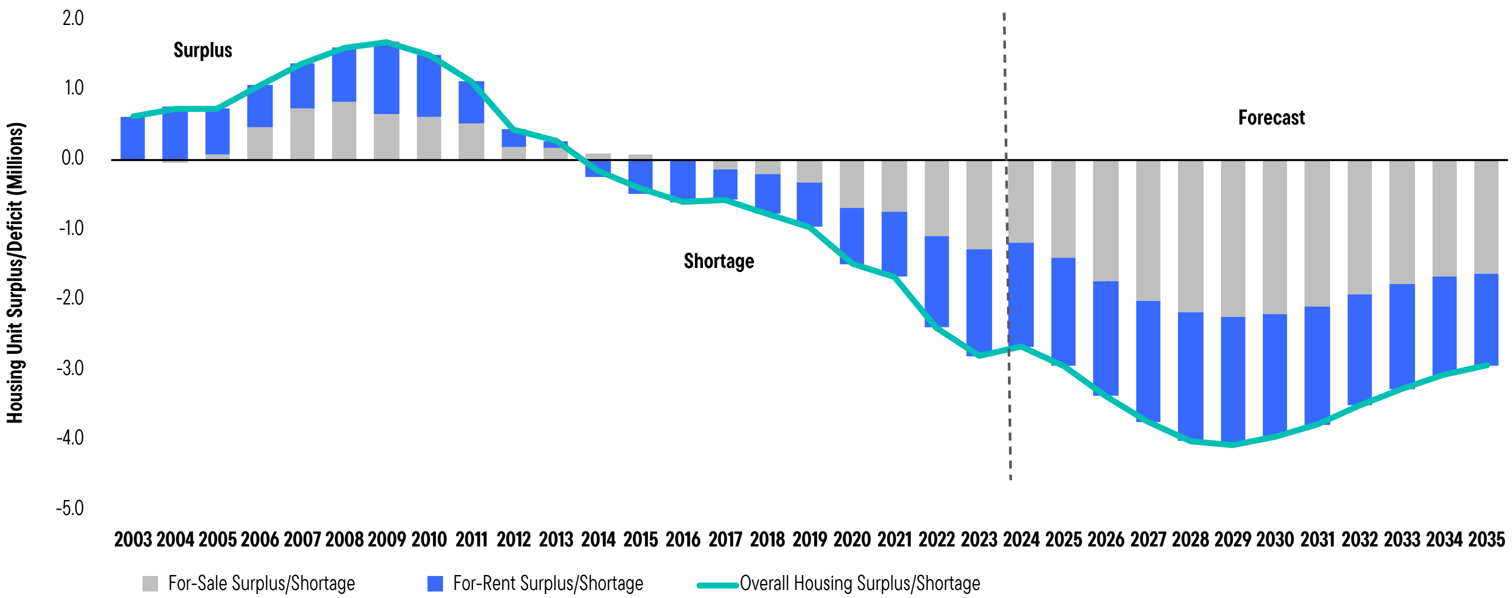
Source: US Census Bureau, Moody's Analytics, Clarion Partners Investment Research, as of 6/30/2024.

Housing: Structural deficit creates long-term opportunities

The housing problem in the US is complex and multifaceted and will not be resolved quickly. For real estate investors, it offers a broad and resilient opportunity set in addressing a fundamental issue that the US will continue to grapple with in the years ahead. We believe the chronic housing shortage creates a long structural tailwind for rental housing that ranges across the spectrum from affordable multifamily units to build-to-rent homes to senior and assisted living, encompassing different cohorts of the population.

A Multi-Decade Housing Shortage Will Continue to Drive Positive Demand and Pricing

Estimate of US Housing Shortage



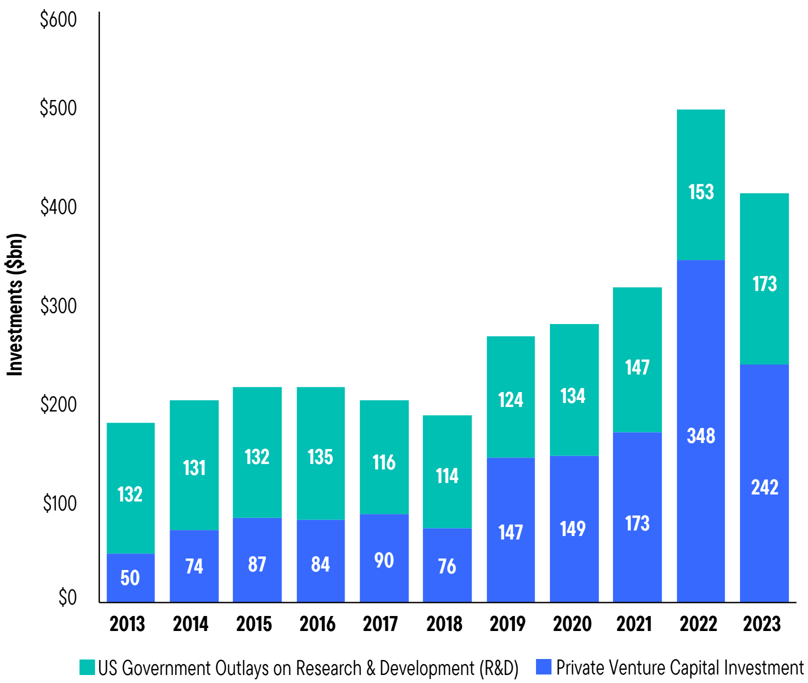
Source: US Census Bureau, Moody's Analytics, Clarion Partners Investment Research, as of 6/30/2024. There is no assurance that any projection, estimate or forecast will be realized.

Innovation: The new landscape of growth

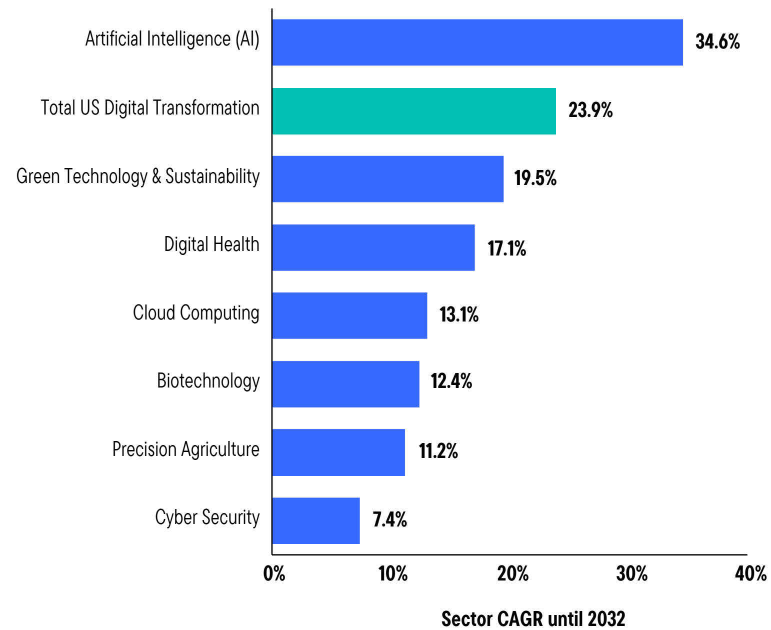
Innovation industries are shifting the structure of the US economy and creating a source of tremendous long-term real estate investment opportunity. We believe investors should target these large and increasingly diverse innovation markets to deliver real estate solutions to meet the growing needs of the knowledge sector. Innovation-driven demand encompasses a diverse range of property types and asset classes, from technology startups and R&D facilities to lab space, data centers, corporate campuses and logistics infrastructure.

The Innovation Economy Will Required a Significant Real Estate Footprint

Public/Private Innovation Funding and Market Sector CAGR Forecast Until 2032



Source: Congressional Budget Office, Clarion Partners Investment Research, as of 6/30/2024.



Source: PitchBook, Grandview Research, Clarion Partners Investment Research, as of 3/31/2024. There is no assurance that any projection, estimate or forecast will be realized.

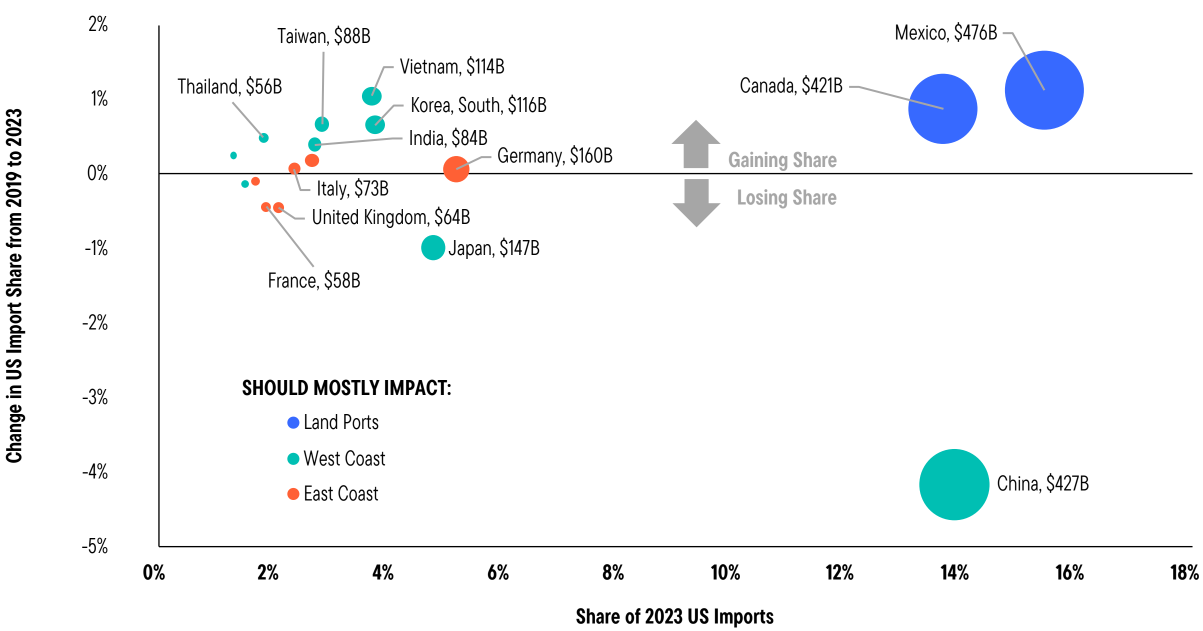
Globalization: Shifting patterns suggest a broader opportunity for real estate

While we expect trading partners to shift because of evolving political situations, we continue to believe the global movement of goods and trade will not diminish and will remain a structurally important driver of US economic growth and demand. As patterns of trade and goods shift, the relative importance of markets may change and offer investors additional opportunities to build strategies around the path of growth.

Industrials is the CRE sector that is most closely linked to global trade, making navigating trade policy an important investment consideration. However, US consumption ultimately drives growth for industrial and logistics real estate and it has remained resilient over the last six years despite historically higher tariffs, inflation, interest rates and macroeconomic uncertainty. While there is a wide range of uncertainty on future policy, it is our view that certain regions should continue to benefit from the US/China decoupling, including East and Southeast Asia (excluding China) and Mexico. We also expect additional growth in US manufacturing investment, which should benefit the warehouse sector. Overall, consumption trends have remained healthy and port volumes and e-commerce sales continue expanding, all of which should support growth for the US industrial and logistics market.

Despite Tariffs, US Trade Continues to Expand, but the Countries Have Shifted

US Import Share by Country



Source: US Census Bureau, Moody's Analytics, U.S. Bureau of Economic Analysis, Clarion Partners Investment Research, as of 4/30/2024.

Resiliency: Building durable, long-term real estate portfolios

Our themes are aimed at building lasting and resilient portfolios that can weather cyclical changes and take advantage of long-term structural demand drivers, allowing investors to benefit from consistent and repeatable cashflows.

Resiliency Underpins High-Quality Market and Asset Selection

Components of High-Quality Investments

Resiliency

Economic

- Strong demand tailwinds (demographic and/or employment growth)
- Established knowledge clusters
- Diversity of industry
- Proven ability to reinvent across business cycles

Operational

- Assets that offer what tenants seek and can accommodate evolving tenant demands
- Vibrant, live-work-shop-play neighborhoods
- “Mission critical” facilities
- Lower required CapEx

Environmental

- Limited CO_2 emissions
- Reduced exposure to natural disasters
- Ability to accommodate shifting ESG requirements and tenant desires

Based on the views of Clarion Partners. Subject to change.

Investment implications

Commercial real estate—a historically dependable asset class—has been in a rare moment of weakness. However, there are long-term secular drivers that will continue to make CRE a compelling part of an alternatives allocation. Underneath the surface, the asset class is undergoing a structural shift in its composition with a more prominent role and growing opportunity set in alternative sectors, including health care facilities, storage properties and different forms of rental housing.

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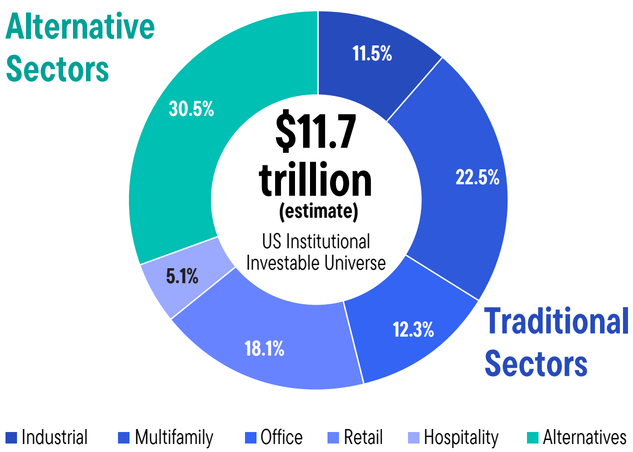
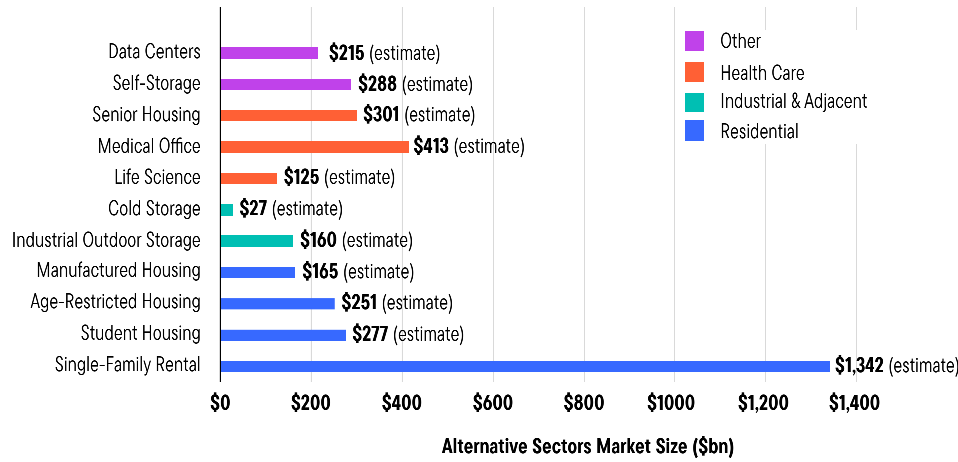
The hidden strength of alternatives in CRE

CRE is an incredibly diverse asset class with many differentiated sub-sectors that are not captured through broad-based, traditional sector categorizations. Importantly, there is a growing share of alternative sectors that offer investment opportunities but are difficult to isolate using traditional CRE market measures. Under the surface of a broader CRE slowdown, these sectors are experiencing substantial growth. We estimate they now account for more than 30%, or $3.6 trillion, of the investable US CRE universe, indicating a significant shift in the real estate landscape. Alternative sectors like self-storage, health care-related facilities and specialized residential and single-family houses have seen strong tenant and investor demand.

A Hidden $3.6 Trillion Opportunity Set

Bottom-Up Estimate of US CRE Investable Universe and Alternative Property Types



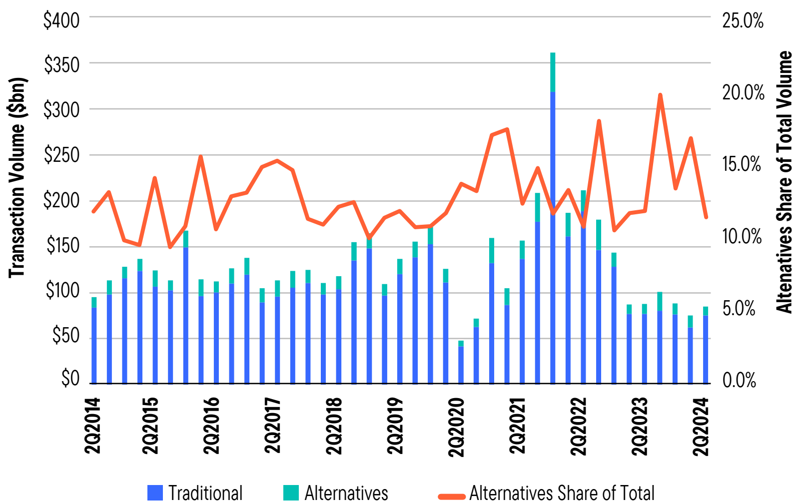


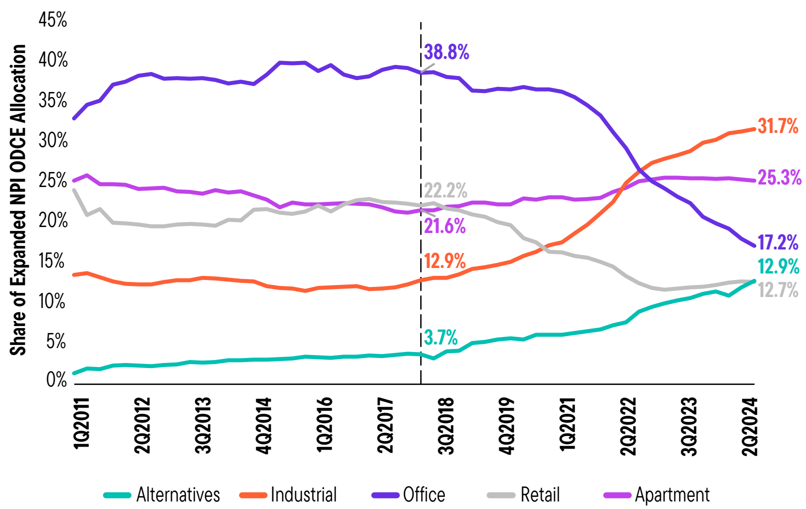
Source: Clarion Partners Investment Research, Rosen Consulting Group, as of 6/30/2024. There is no assurance that any projection, estimate or forecast will be realized.

Transaction volume in alternative CRE sectors reached $14.2 billion over the past four quarters, representing 16% of total CRE volume. This growth is underscored by the sectors' increased share in the NCREIF Open-End Diversified Core Equity Index (ODCE), which rose from about 4% in 2017 to 12.9% in Q2 2024. Understanding the growing share of alternative sectors in the CRE universe offers investors a chance to capitalize on evolving market trends, diversify their portfolios and potentially achieve higher returns.

The Start of a Long-Term Shift Towards Alternatives in the CRE Landscape

CRE Alternative Sector Transaction Volume and Share of Index Weights





Source: Clarion Partners Investment Research, Rosen Consulting Group, as of 6/30/2024.

Alternatives by Franklin Templeton

Franklin Templeton offers institutional investors access to a $250+ billion private markets investment platform backed by specialist investment managers with deep expertise in their respective domain.

Franklin Venture Partners

Based in the heart of Silicon Valley, Franklin Venture Partners is the private investing platform of Franklin Templeton's equity group. The team leverages the firm's resources and capabilities to pursue opportunities where its expertise and network adds value to drive growth and profitability for early- to mid-stage private companies.

Franklin Templeton digital assets

Franklin Templeton Digital Assets has been engaged in the digital asset ecosystem since 2018, developing technology platforms and strategy differentiation to help clients achieve their investment goals. They take a holistic approach to the ecosystem through building blockchain-enabled technologies and products, all while supporting and investing in digital asset networks.

Lexington Partners

Secondaries investment pioneer Lexington Partners is one of the world's largest managers of secondary acquisition and co-investment funds. Over the past 30 years, the firm has raised commitments from more than 1,000 institutional investors, deploying capital across more than 5,000 secondary, co-investment, and primary interests globally.

Benefit Street Partners | Alcentra

The combined footprint of Benefit Street Partners | Alcentra is one of the largest alternative credit asset managers globally. The investment teams have more than 35 years combined global expertise in private debt, special situations, structured credit, collateralized loan obligations, liquid credit and real estate lending.

Clarion Partners

Clarion Partners is one of the largest pure-play real estate investment managers offering a broad range of private real estate strategies across the risk-return spectrum. For over 40 years the firm has used its broad scale, execution capabilities and deep market and property expertise to build strategies that leverage the true drivers of long-term value in real estate.

All data as of 9/30/2024.

Sources and endnotes:

1. Source: McKinsey & Company, 2024 Global Private Markets Review, published March 2024.
2. Source: Bain & Company, Avoiding Wipeout: How to Ride the Wave of Private Markets, as of August 2024. There is no assurance that any projection, estimate or forecast will be realized.
3. Source: PitchBook, 2023 Annual US PE Middle Market Report, as of 12/31/2023.
4. Source: UBS, Global Wealth Report 2024: Crafted Wealth Intelligence, published September 2024. There is no assurance that any projection, estimate or forecast will be realized.
5. Source: PitchBook, Q3 2024 US PE Breakdown Report, as of 9/30/2024.
6. Source: PitchBook, Q3 2024 NVCA Venture Monitor Report, as of 9/30/2024.
7. Source: PitchBook, Jefferies. Based on annual secondary volume divided by private market assets under management for the 2023 calendar year.
8. Source: Evercore Private Capital Advisory, 2023 Secondary Markets Survey Results.
9. Source: With Intelligence. Private Credit Fundraising Insights: The Rise of the Mega Fund, published 8/15/2024.
10. Source: PitchBook, Q2 2024 Global Private Debt Report, published September 2024.
11. Source: Trepp, as of September 2024.
12. Source: Federal Reserve, H.8 notes reported on U.S. bank CRE holdings, as of June 2024.
13. Source: Bloomberg, as of 6/30/2024.
14. Source: Reorg Research, Borrowers' Grasp on European Leveraged Loans Transfer Provisions Make Lender Exits Difficult, published September 2022.
15. Source: Reorg Research, GenesisCare Debt Bounces Back 10 Points After Lifting of Whitelist Restrictions Sparks Wave of Trading, published May 2023.
16. Source: PitchBook, 2025 US CLO Outlook, Global CLO Weekly Wrap, as of 12/31/2024.
17. Source: NCREIF, Bloomberg, Clarion Partners Investment Research, as of 9/30/2024.

Key terms

Primaries: Investments are made directly in newly formed private equity funds to gain exposure to privately held companies.

Secondaries: Private equity secondaries are transactions that offer liquidity solutions to owners of interests in private equity and other alternative investment funds.

Co-investment: Direct equity co-investment refers to an investment structure in which a private equity firm (General Partner) and direct co-investors collectively invest in portfolio companies.

EV/EBITDA: A financial ratio that compares a company's total enterprise value (EV) to its earnings before interest, taxes, depreciation, and amortization (EBITDA). Investors use the ratio to measure the relative value of a company.

J-curve: The "J-curve" is the term commonly used to describe the trajectory of a private equity fund's cashflows and returns. An important liquidity implication of the J-curve is the need for investors to manage their own liquidity to ensure they can meet capital calls on the front-end of the J-curve.

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Alternative investment strategies (such as Private Credit, Private Equity and Real Estate) are complex and speculative, entail significant risk and should not be considered a complete investment program. Such investments viewed as illiquid and may require a long-term commitment with no certainty of return. Depending on the product invested in, such investments and strategies may provide for only **limited liquidity** and are suitable only for persons who can afford to lose the entire amount of their investment. Private investments present certain challenges and involve incremental risks as opposed to investments in public companies, such as dealing with the lack of available information about these companies as well as their general lack of liquidity. There also can be no assurance that companies will list their securities on a securities exchange, as such, the lack of an established, liquid secondary market for some investments may have an adverse effect on the market value of those investments and on an investor's ability to dispose of them at a favorable time or price.

Risks of investing in **real estate investments** include but are not limited to fluctuations in lease occupancy rates and operating expenses, variations in rental schedules, which in turn may be adversely affected by local, state, national or international economic conditions. Such conditions may be impacted by the supply and demand for real estate properties, zoning laws, rent control laws, real property taxes, the availability and costs of financing and environmental laws. Furthermore, investments in real estate are also impacted by market disruptions caused by regional concerns, political upheaval, sovereign debt crises and uninsured losses (generally from catastrophic events such as earthquakes, floods and wars). Investments in real estate related securities, such as asset-backed or mortgage-backed securities are subject to prepayment and extension risks.

Investments in fast-growing industries in the technology sector, (such as **digital assets**, including but not limited to: **cryptocurrency and blockchain companies**, including crypto exchanges), which historically have been volatile could result in increased price fluctuation, especially over the short term, due to the rapid pace of product change and development and changes in government regulation of companies emphasizing scientific or technological advancement. Additional risks may include the inability to develop digital asset applications or to capitalize on those applications, theft, loss, or destruction of cryptographic keys, the possibility that digital asset technologies may never be fully implemented, cybersecurity risk and conflicting intellectual property claims, as well as inconsistent and changing regulations.

The **use of leverage** can increase the volatility of investment returns and subject a fund to magnified losses underlying investments decline in value. A fund with a higher leverage ratio will be more sensitive to volatility and more susceptible to losses due to declines in asset values, than a fund with a lower ratio.

Diversification does not guarantee a profit or protect against a loss.

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