



VAN LANSCHOT  
KEMPEN

INVESTMENT MANAGEMENT

# Alternatives Quarterly Views

Edition Q1 2024

Our quarterly insights into Alternative investments

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# Review & Outlook

## Market review Q3 2023\*

During Q3 2023 traditional asset classes delivered weak performance, with Global Equities down 3.4% and Global government bonds down 2.9%\*\*.

Consequently, the 60/40 balanced portfolio lost 3.2% during Q3. The yield on 10-year German government bonds increased during Q3 from 2.4% to 2.8%.

Alternatives performed relatively well in this context. Alternative credit posted strong total returns in Q3 as elevated interest rates drove coupon income higher while credit default rates remained relatively low. Corporate direct lending was up 3.3%, followed by Structured credit (+2.8%) and Corporate distressed debt (+1.1%). Real assets continue to see a repricing of their asset valuations due to higher interest rates (and inflation), leading to mildly negative total returns in Q3, with Private Real Estate equity (-0.8%), Private Infrastructure equity (-1.2%), and Private Farmland (-0.8%). Private Equity delivered +0.6%.

## Macro-economic outlook for 2024

For H1 2024, we expect macro uncertainty and relatively high interest rate volatility to prevail. We expect growth to decelerate further, and contrary to the markets' narrative of a 'soft landing', to a mild recession in the US and Europe, with a recovery in the latter part of 2024. While inflation continues to face upward pressure from longer-term structural trends such as demographics and sustainable transitions, we expect it to moderate further in the next quarters given the cycle. Central banks are likely done hiking rates but the path for base rate cuts remains uncertain. Meanwhile geopolitical tail risks are increasing, from Ukraine to the Middle East. Once macro uncertainty fades later in 2024, greater certainty on borrowing costs could drive a stabilization in valuations, and subsequently improve transaction activity (a release of dry powder and more exits).

## Asset class outlook (6-12 months' horizon)

Within Alternative credit, we have a constructive view on Structured credit and Corporate distressed debt, while we have a neutral view on Corporate direct lending. Within Real assets, we have a constructive view on Private infrastructure and Private Farmland but remain cautious on Private Real Estate equity. We remain careful with Private equity, although we note that private equity funds could benefit from lower entry valuations.

\* Alternatives' indices are typically released with a one-quarter time lag due to their less liquid nature.

\*\* Global Equities: MSCI ACWI Net Total return USD index; Global government bonds: ICE BofA Global government bond index (W0G1).



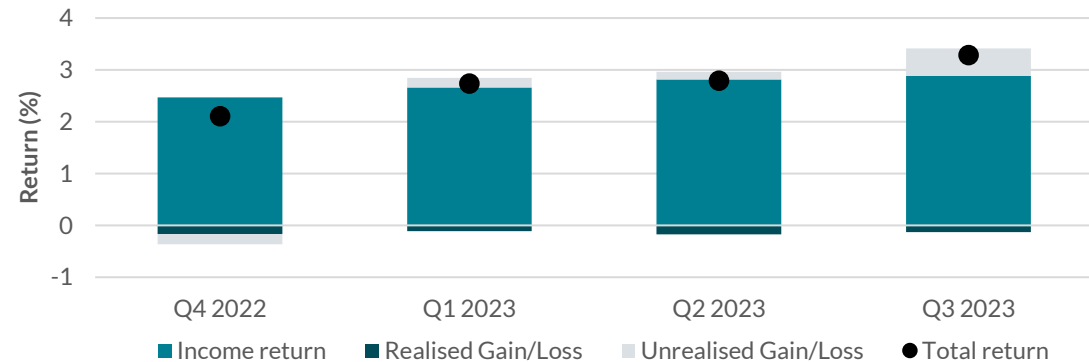
# Corporate Direct Lending

## Performance Q3-'23: Strong returns, driven by high income and low defaults

US (senior, middle market) Corporate direct lending returned +3.3% over the third quarter of 2023. Like previous quarters, total return was mainly driven by income (+2.9%). Elevated interest rates contribute through high coupon income to the strong performance of this floating-rate asset class. Actual write-downs of loan principal due to borrower defaults remained very low around -0.1%.

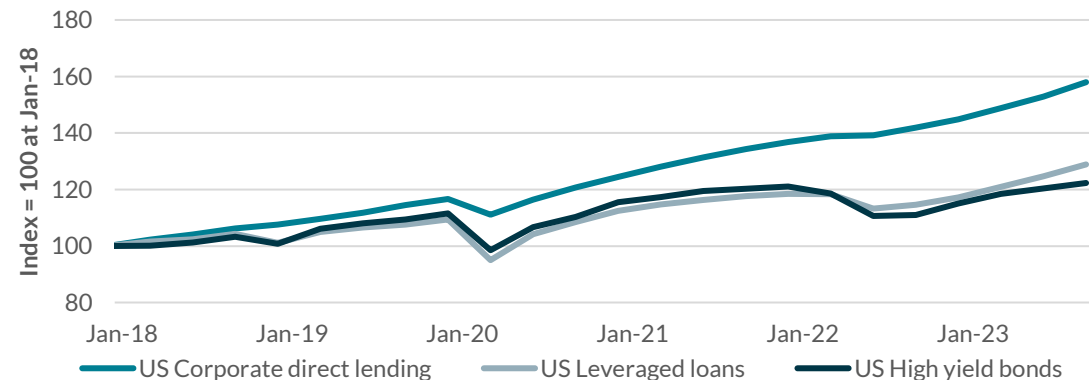
On a relative basis, US Corporate direct lending has performed better than US High yield corporate bonds and US Leveraged loans over the past five years. Over Q3-'23, US Corporate direct lending (+3.3%) outperformed US High yield corporate bonds (+1.6%) and in line with US Leveraged loans (+3.3%)\*. We recommend for this asset class to evaluate performance over a long-term horizon as valuations lag public markets and instruments are less liquid.

### 1. US (senior, middle market) Corporate direct lending performance



Source: Cliffwater, Van Lanschot Kempen (Sept. 2023).

### 2. Relative performance versus High yield bonds and Leveraged loans



Source: Cliffwater, ICE BofA, JP Morgan, Van Lanschot Kempen (Sept 2023).

\* Corporate Direct Lending: Cliffwater CDLI-S Index, US High Yield: ICE BofA US High Yield Master II Index<sup>4</sup> (HOAO), US Leveraged loans: JP Morgan Leveraged Loan index. Returns in USD. See also Appendix.

# Corporate Direct Lending

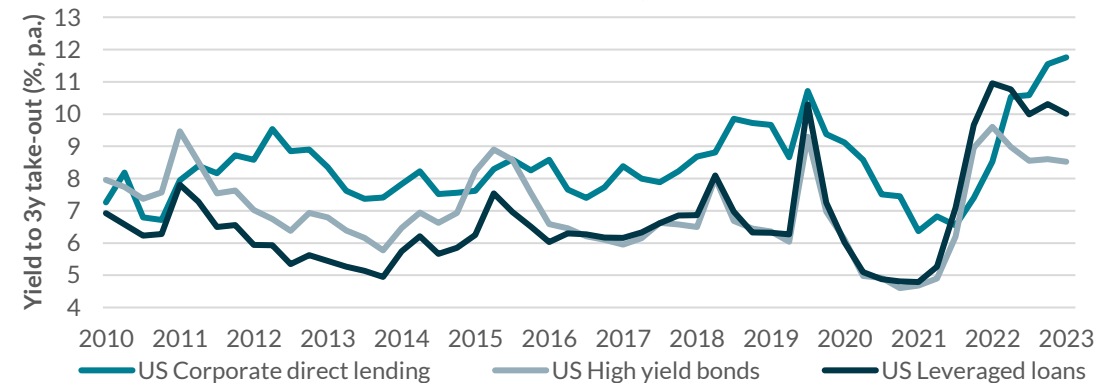
## Current metrics: Yields are attractive but spread below historical average

Over the past quarters yields, a key driver for long-term returns, on US Corporate direct lending have increased to historical highs (11.8%), helped by rising floating rates. As we expect central bank rate cuts later in 2024, yields on floating-rate loans are likely near cycle highs. Yields for US Leveraged loans and US High yield bonds decreased to 10.0% and 8.5% respectively.

The credit spread on US Corporate direct lending (630bps.) sits near historically tight levels though, while US Leveraged loans and US High yield bond spreads fell to 541bps. and 406bps. respectively. This results in a relatively low excess spread of US Corporate direct lending over US Leveraged loans.

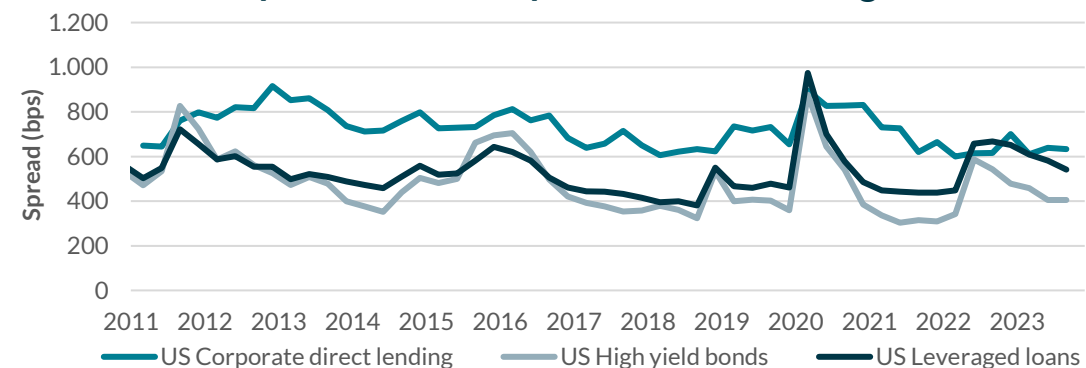
Fundamentals remain relatively strong, with steady top-line growth and lower leverage on new deals as borrowing costs are elevated. While average interest rate coverage is stable around 2.0x, 30% of the corporate borrowers report a ratio of < 1.0x (source: Lincoln).

### 3. Yield on US Corporate direct lending looks attractive...



Source: Cliffwater, ICE BofA, JP Morgan, Pitchbook, Van Lanschot Kempen (Sept. 2023).

### 4. ... while the spread on US Corporate direct lending is on the lower end



Source: Cliffwater, ICE BofA, JP Morgan, Pitchbook, Van Lanschot Kempen (Sept. 2023).

\* Corporate Direct Lending: Cliffwater CDLI-S Index, US High Yield: ICE BofA US High Yield Master II Index (H0AO), US Leveraged loans: JP Morgan Leveraged Loan index. Spread definitions: DL & LL discount margin over 3m SOFR; HY option-adjusted spread over US Treasuries (all in USD). See also Appendix.

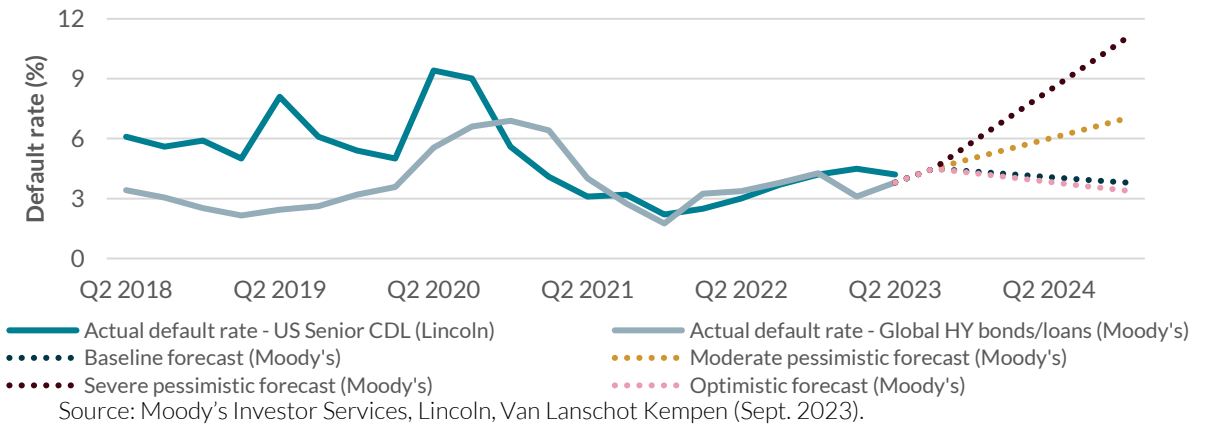
# Corporate Direct Lending

## Outlook (6-12 months): Conservative underwriting is key, dry powder is high

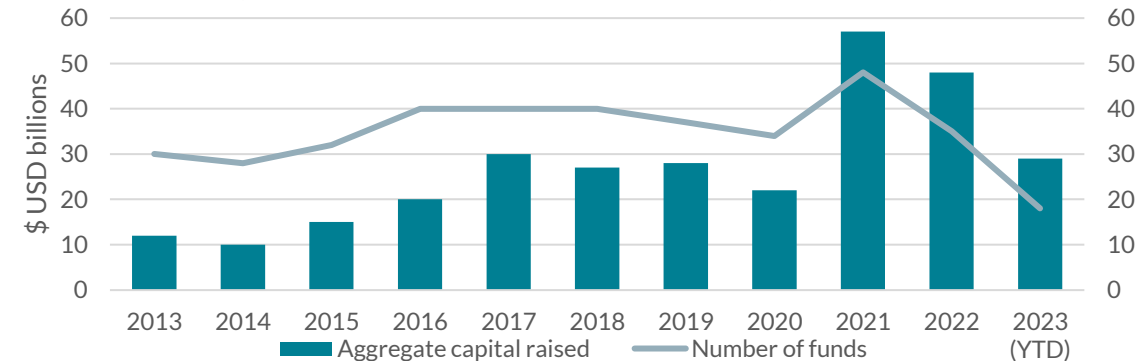
Late in the cycle, default rates across Alternative credit require close monitoring. Despite healthy fundamentals and actual default rates near historical averages, delinquencies are rising and credit watchlists are building. In our scenario of a mild recession in the US and Europe in H1 2024, corporate default rates could rise by another 2-3 percentage points in the next 12 months (and fall back afterwards). Corporate direct lending, with a current default rate of 3.9% (source: Lincoln), is a relatively young asset class with limited credit default loss evidence, and thus some caution is warranted. However, with yields around 12% there is a considerable buffer against a potential rise in credit default losses, and lenders can 'amend and extend' loans to avoid defaults. Reflecting this trade-off, we are upgrading the category to 'Neutral' this quarter.

Fundraising activity for US Corporate direct lending has moderated since 2021-2022. Nevertheless, cumulative dry powder totals record levels of \$107bn (source: Preqin). This clearly demonstrates investors' appetite for the asset class.

### 5. Speculative-grade corporate default rates – actual and forecasts\*



### 6. Fundraising for US Corporate direct lending has moderated this year



\* Corporate Direct Lending: Lincoln Senior Debt index, 12 month Global speculative-grade corporate default rate (including distressed exchanges) and forecast: Moody's Investor Services.

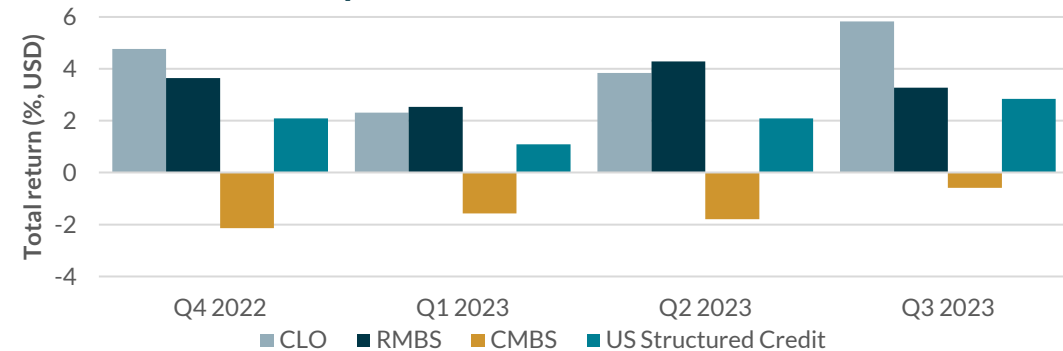
# Structured Credit

## Performance Q3-'23: Positive return, despite weakness in CMBS sector

Structured credit (private, mezzanine) returned +2.8% over the third quarter of 2023. Elevated interest rates contribute through high coupon income to the strong performance of this floating-rate asset class. US BBB-rated CLOs was the best performing sector (+5.8%) as CLO amortization is accelerating, followed by US BB-rated non-agency RMBS (+3.3%). US BBB-rated CMBS posted a negative return (-0.6%), driven by the ongoing stress in the office sector, amidst rising interest rates and increasing credit rating downgrades. It is worth remembering that Structured credit typically invests in pools of loans (not equity), offering significant credit enhancement and highly diversified pools as a buffer.

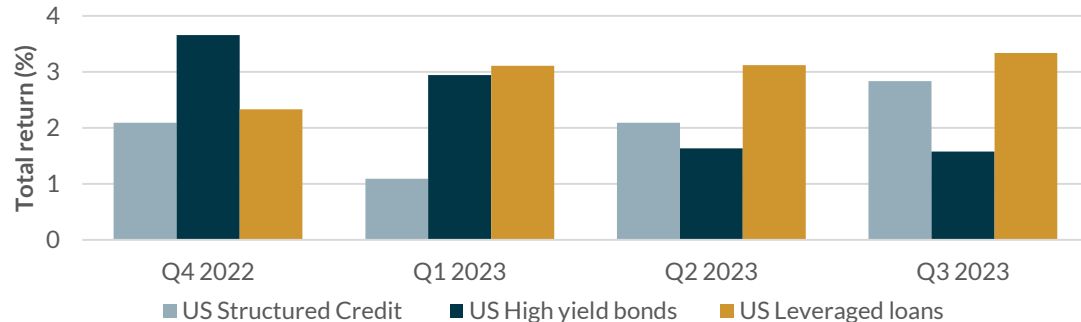
On a relative basis, Structured credit performed better over Q3-'23 than US High yield corporate bonds (+1.6%) while underperforming US Leveraged loans (+3.3%)\*.

### 7. Structured Credit performance\*



Source: JP Morgan, ICE BofA, Citi, Van Lanschot Kempen (Sept. 2023).

### 8. Relative performance versus High Yield bonds and Leveraged loans



Source: JP Morgan, ICE BofA, Citi, Van Lanschot Kempen (Sept. 2023).

\* Structured Credit: focus on BBB rated, thus an equally weighted proxy of JP Morgan CLOIE BBB index (US BBB CLOs), ICE BofA US BBB CMBS index (CB40) and Citi US non-agency RMBS CRT M2 securities (US BB RMBS). US High Yield: ICE BofA US HY Constrained (0-5 Y)(BB-B) index (H4CD), US Leveraged loans: JP Morgan Leveraged Loan index. CLOs are Collateralized Loan Obligations, RMBS are Residential Mortgage-backed Securities and CMBS are Commercial Mortgage-backed Securities. See also Appendix.

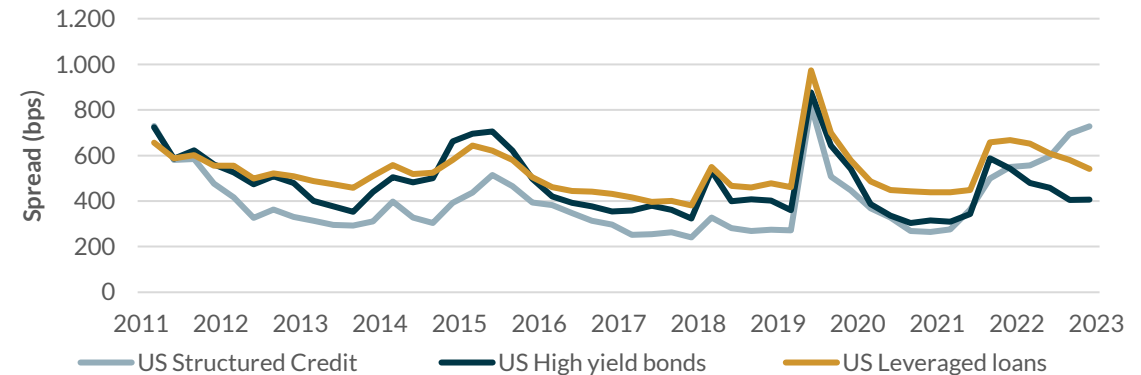
# Structured Credit

## Current metrics: Spread driven wider by CMBS, CLOs remain strong

During the third quarter, the spread on Structured credit widened further to 728bps., while US High yield and US Leveraged loans spreads tightened (to 406bps. and 541bps. resp.). Wider spreads in Structured credit were driven by stress in the CMBS sector and are now well above their historical average. Meanwhile spreads on US High yield and US Leveraged loans have continued to tighten.

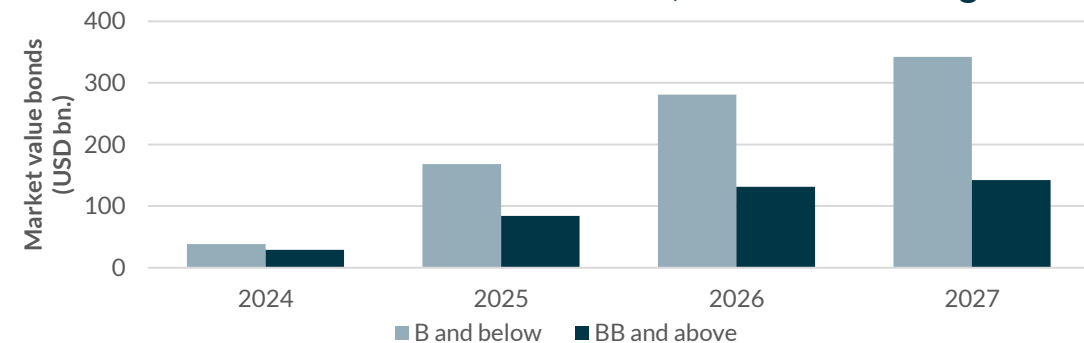
Over Q3-'23, the spread on US BBB-rated CLO tightened by 74bps. to 458bps. as the Fed indicated a lower probability of future rate hikes. Strength in the leveraged loans market (CLO's underlying collateral) and relatively modest default rates were offset by economic growth concerns. CLO primary market issuance has remained strong over the year. While pending loan maturities have been extended, a maturity wall might be building for 'B and lower' rated leveraged loans. As CLO managers can actively trade underlying loans and CLOs have significant structural protection against credit losses, this is not a major concern.

### 9. Spread on Structured credit has risen beyond US Leveraged loans



Source: JP Morgan, ICE BofA, Citi, Van Lanschot Kempen (Sept. 2023).

### 10. Loan maturities have been extended, B loans are facing a wall



Source: JP Morgan, LCD, Van Lanschot Kempen (Nov. 2023).

\* Structured Credit: equally weighted proxy of JP Morgan CLOIE BBB index (US BBB CLOs), ICE BofA US BBB CMBS index (CB40) and Citi US non-agency RMBS CRT M2 securities (US BB RMBS). US High Yield: ICE BofA US HY Constrained (0-5 Y)(BB-B) index (H4CD), US Leveraged loans: JP Morgan Leveraged Loan index. See also Appendix.



# Structured Credit

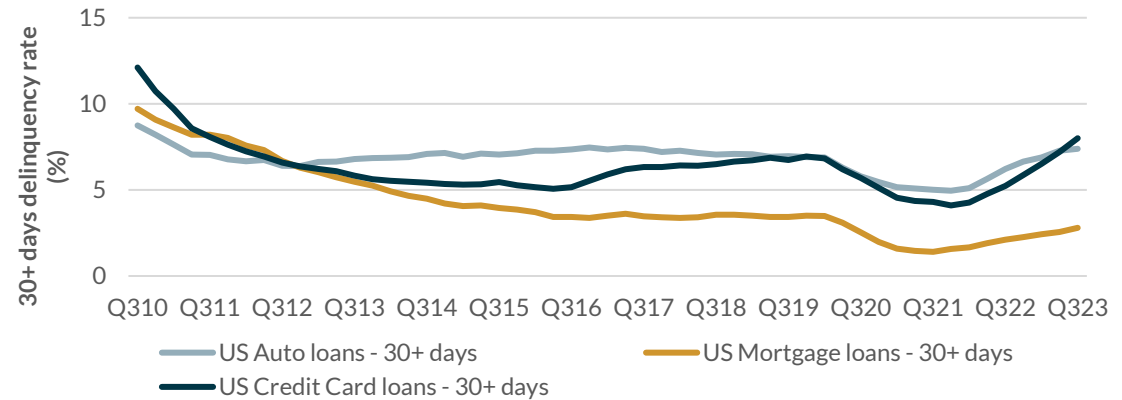
## Outlook (6-12 months): Early loan delinquencies back to pre-pandemic levels

The impact of higher interest rates is starting to feed through to the consumer, with the student loan moratorium ending, weaker job prospects and less savings. RMBS has remained strong, as the rise in mortgage rates to 7.7% does not feed through to home prices due to the locked-in effect. Early delinquency rates for ABS and RMBS have increased slowly over the quarter, to pre-pandemic levels.

Within CMBS, we continue to see strong sectoral divergence in early delinquency rates. For the ninth consecutive month the office sector rate has been increasing, while early delinquency rates for industrial and multifamily sectors remain low. Cyclical and structural trends will continue to be a headwind to offices for a while.

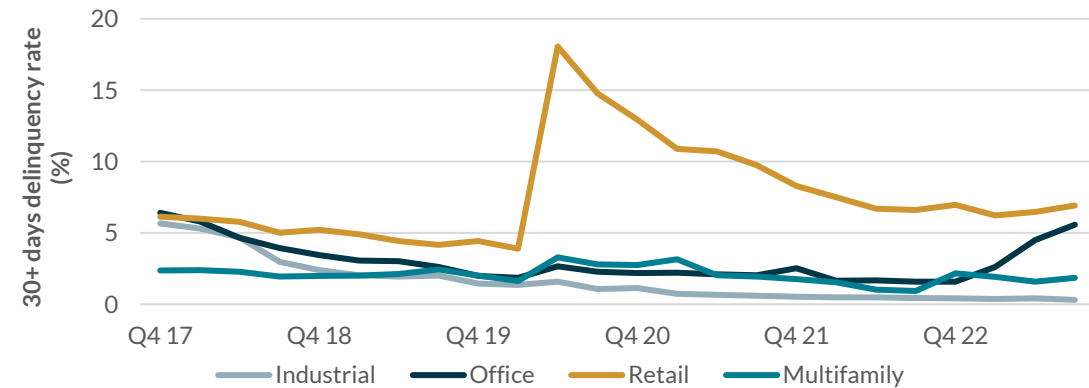
Outside of the office sector, fundamentals in the asset class remain relatively strong and spreads compensate relatively well for the expected gradual deterioration of credit performance. We maintain our moderately positive view.

### 11. ABS & RMBS - Early loan delinquencies rising, but below historic average



Source: US NY Fed, Van Lanschot Kempen (Sept. 2023).

### 12. Conduit CMBS – 30+ day delinquency rates rising, driven by office loans



Source: JP Morgan, Van Lanschot Kempen (Sept. 2023).

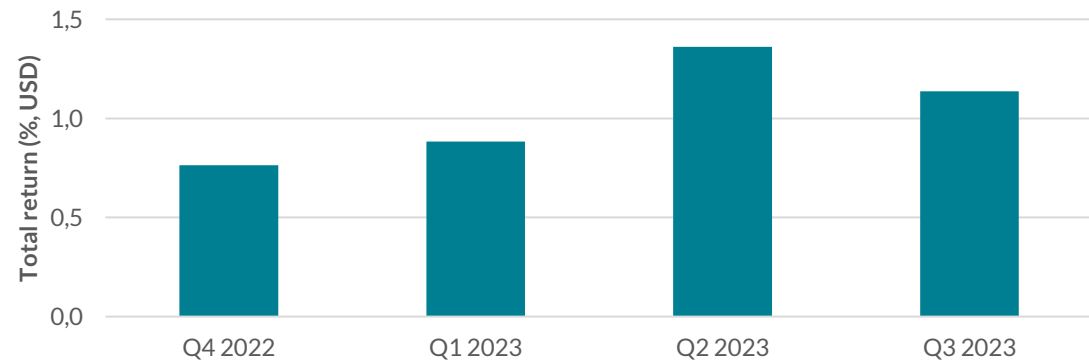
# Corporate Distressed Debt

## Performance Q3-'23: Positive absolute return, relative underperformance

Corporate distressed debt had a modest positive return over the third quarter of 2023 returning +1.1%. On a relative basis, Corporate distressed debt underperformed in Q3-'23 relative to US High yield corporate bonds (+1.7%) and US Leveraged loans (+3.3%)\*.

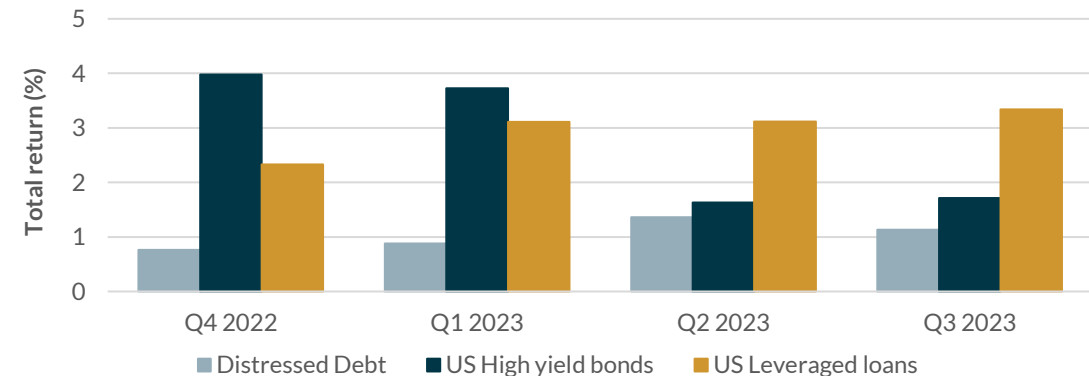
In the current macro environment, stress in the broader speculative-grade corporate universe is increasing. The combination of weaker operating performance, higher refinancing rates and tighter bank lending conditions has resulted in weaker borrowers struggling to refinance. Especially those companies that have been financed a few years ago with high leverage based on cheap floating borrowing rates, may struggle to survive as base rates have gone from 1% to 5%, harming interest coverage and free cashflow. The lower quality leveraged loan market with a growing share of 'B and lower' rated loans is particularly at risk to this dynamic.

### 13. Distressed Debt performance



Source: HFR, Van Lanschot Kempen (Sept. 2023).

### 14. Relative performance versus High Yield bonds and Leveraged loans



Source: HFR, ICE BofA, JP Morgan, Van Lanschot Kempen (Sept. 2023).

\* Distressed Debt: HFRI Event Driven: Distressed/Restructuring Index, US High Yield: ICE BofA US High Yield Master II Index (HOOA), US Leveraged loans: JP Morgan Leveraged Loan index. See also Appendix.



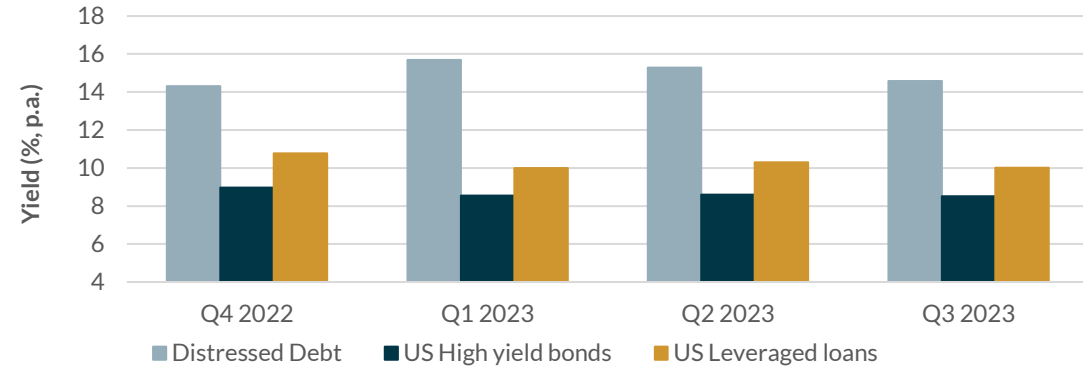
# Corporate Distressed Debt

## Current metrics: Excess yield remains high, distress ratio still elevated

Per the end of the third quarter, the yield on the Corporate distressed debt opportunity set is slightly lower (14.6%), while yields on US High yield bonds and US Leveraged loans remained broadly unchanged at 8.5% and 10.0% respectively\*. Yields on Corporate distressed debt are higher to compensate for its typically higher credit default and illiquidity risk. The size of the distressed opportunity set slightly decreased over the third quarter but remains large relative to its history.

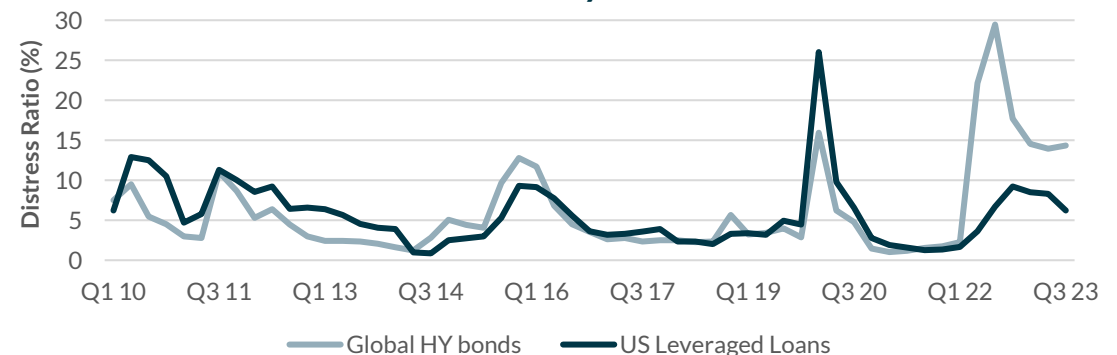
The distress ratio, which is seen as a leading indicator for future potential default activity, has fallen over the past quarters. The distress ratio for Global High yield bonds (14.3%) and US Leveraged Loans (6.2%) remains elevated versus its long-term historical average.

### 15. Excess yields on Distressed debt opportunity set remains significant



Source: ICE BofA, JP Morgan, Van Lanschot Kempen (Sept. 2023).

### 16. Distress Ratio has fallen in 2023 year-to-date



Source: ICE BofA, JP Morgan, Van Lanschot Kempen (Sept. 2023).

\*Distress Ratio: market-value weighted proxy based on (percentage) HY bonds in ICE BofA Global High Yield index (HW00) trading below 80 cash price, US Leveraged loans in JP Morgan Leveraged Loan index trading below 80 cash price, All including distressed exchanges.

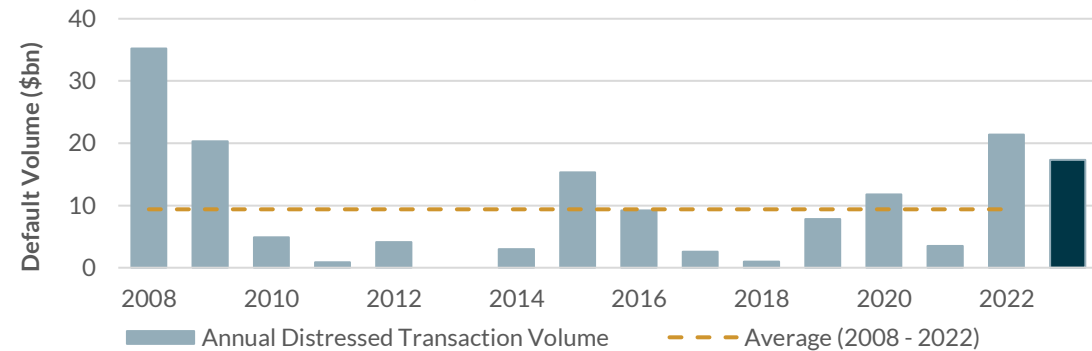
# Corporate Distressed Debt

## Outlook (6-12 months): A mild recession benefits distressed opportunity set

Corporate debt restructurings continue to increase, as borrowers struggle to refinance at higher rates. Year-to-date distressed exchange volumes now well exceed historic averages, as companies look to avoid expensive bankruptcy cases. Whilst distressed exchange transactions defer impending bankruptcies, they often only delay the inevitable, which may result in re-defaults.

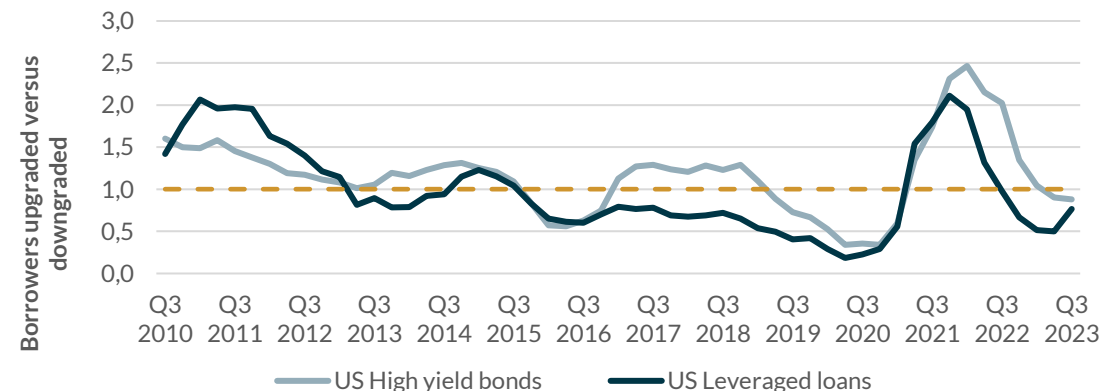
The rolling last 12 months' upgrade-to-downgrade ratio, another leading metric for future potential default activity, has recently stabilized. While downgrades still exceed upgrades, the ratio improved slightly for US Leveraged Loans over the last quarter. Given our outlook for a mild recession in H1 2024, the impending maturity wall for 'B and lower' rated loans and elevated distressed debt exchanges, we believe that the opportunity set remains compelling. Resultingly, we maintain our moderately positive view on the asset class.

### 17. YTD distressed exchange volumes exceed historic averages



Source: JP Morgan, Silver Point Capital, Van Lanschot Kempen (Sept. 2023).

### 18. Upgrade-to-downgrade ratio indicates improving



Source: Source: JP Morgan, Bloomberg Finance, Van Lanschot Kempen (Sept. 2023).



# Private Real Estate (Core)

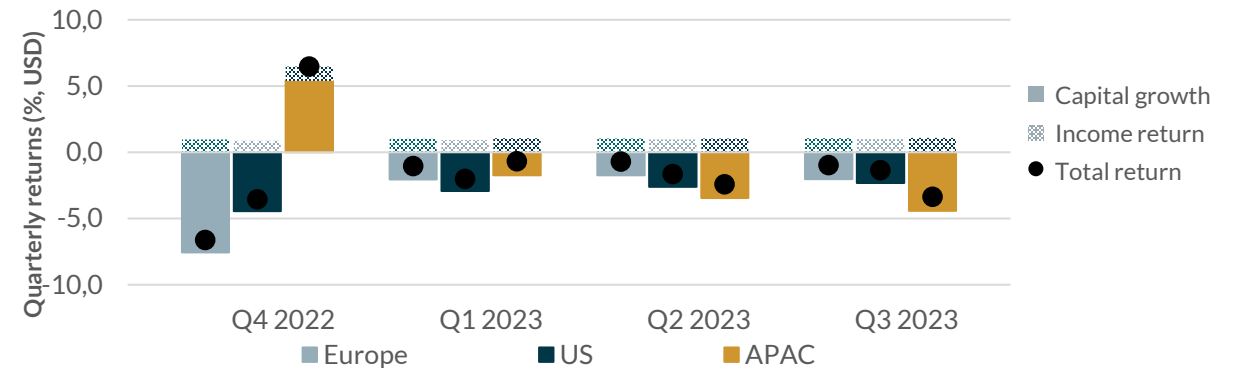
## Performance Q3-'23: As revaluations continue, negative returns persist

In Q3, Global Core private real estate equity ('PRE') continued to face pressure from macro headwinds such as elevated interest rates, tighter credit conditions and lower GDP growth. As interest rates rose, the spread between property capitalization rates (a measure of expected returns on PRE) and government bond yields narrowed. This led to a considerable mismatch in price expectations between potential buyers seeking a price discount, and potential sellers who prefer to wait rather than crystallize losses. As a result, transaction volumes have pulled back to decade lows.

US Core PRE total return was -1.3% over the third quarter, while European Core PRE returned -1.0%. Asia-Pacific PRE performance delivered -3.4% (-0.4% in local currency).

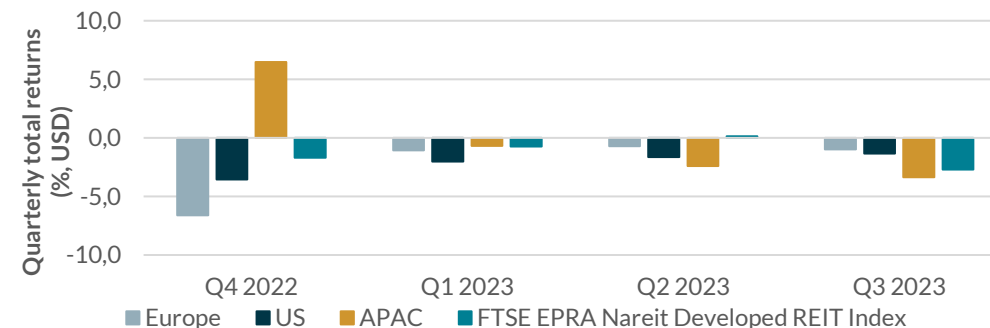
On a relative basis, Global Core PRE and Global Listed real estate equity both delivered weak performance during the third quarter (-0.8% vs. -2.7% resp.). Global Core PRE outperformed broader developed equity markets (e.g. MSCI World: -2.5%).

### 19. Private Real Estate performance



Source: MSCI IPD, Van Lanschot Kempen (Dec. 2023).

### 20. Performance Private Real Estate versus Listed Real Estate



Source: MSCI IPD, FTSE EPRA, Factset, Van Lanschot Kempen (Sept. 2023).

\* US PRE: MSCI U.S. Quarterly Property index (Unfrozen), European PRE: MSCI Europe Quarterly Property Index (Unfrozen), APAC PRE: MSCI Global Quarterly Property index (Unfrozen) Asia-Pacific. Global Listed Real Estate: FTSE EPRA NAREIT Developed index. Returns are in USD unless explicitly mentioned otherwise. See also Appendix.

\*\* Cap rates are calculated by dividing net operating income (NOI) by a property's current market value.

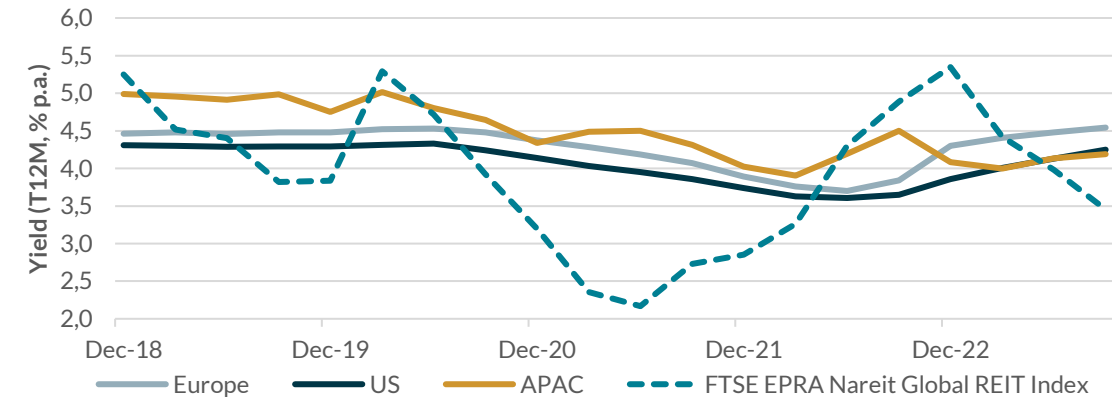
# Private Real Estate (Core)

## Current metrics: Income returns stable as fundamentals see large variation

Expected income returns on PRE (as proxied by NOI yields) remained broadly unchanged during Q3 for Europe (4.5%), US (4.3%) and Asia-Pacific (4.2%). Conversely, the trailing NOI yield for global listed real estate (3.5%) continued to decline during Q3 despite revaluations, which could point to listed real estate companies adopting a more cautious approach by paying out dividends.

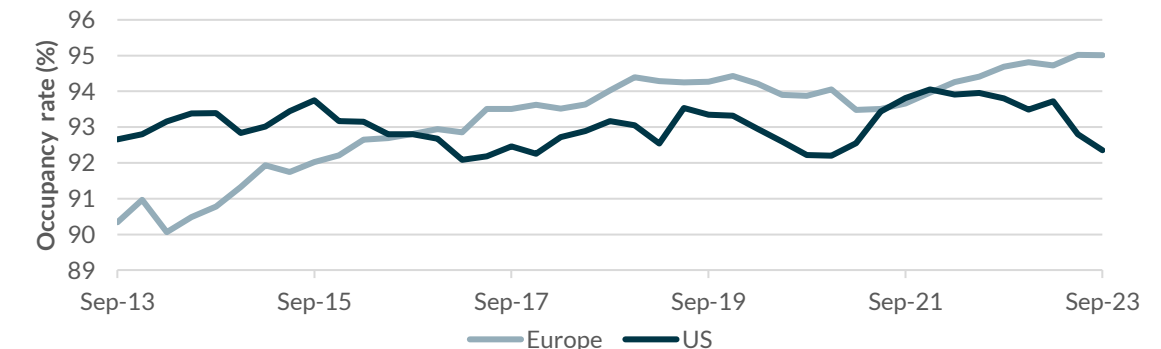
Fundamental metrics show great variety across regions, sectors and quality. Most US offices see historically high vacancy rates with the government offering incentives to convert offices to affordable housing, while many European office markets see below-average vacancy rates. Resilient occupancy rates amidst supply shortfall and strong demand in sectors such as residential, logistics and senior housing support market rental growth.

### 21. Yield evolution



Source: MSCI, FTSE EPRA, Van Lanschot Kempen (Sept. 2023).

### 22. Occupancy rates



Source: MSCI, FTSE EPRA, Van Lanschot Kempen (Sept. 2023).

\* NOI yield is calculated by dividing trailing 12 month net operating income by total purchase price. This measure is focused on income returns, while cap rates are more focused on returns from capital appreciation..



# Private Real Estate (Core)

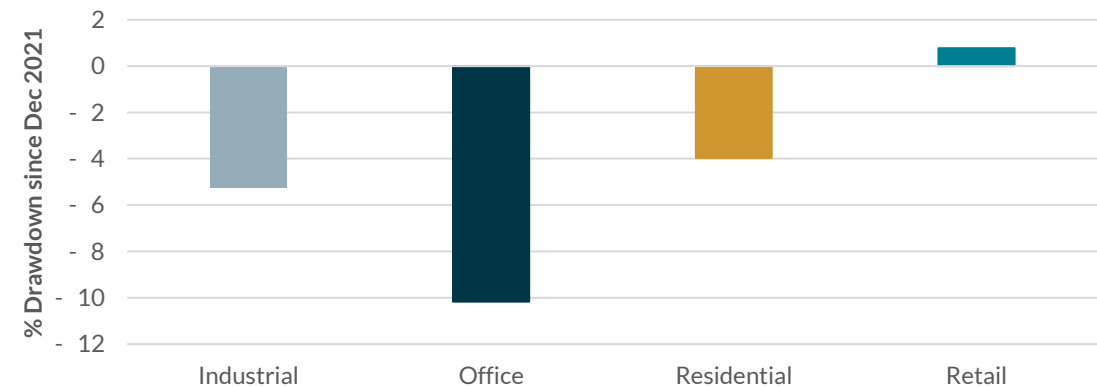
## Outlook (6-12 months): Further revaluations, may bottom out in 2024

Investors in Global Core PRE will continue to face a challenging market in 2024. Compressed cap rate spreads are likely to drive further capital revaluations. While bifurcation between properties is high, distress will likely be contained to older and underperforming offices and retail malls that may not be able to refinance their debt, triggering selective defaults and distressed asset sales.

If interest rates will stabilize at lower levels, capital values could bottom out in the course of 2024, and transaction activity could normalize again. Opportunities may appear in specific sectors that already went through a relatively larger drawdown and see strong market rental growth (e.g. industrial) and distressed asset sales.

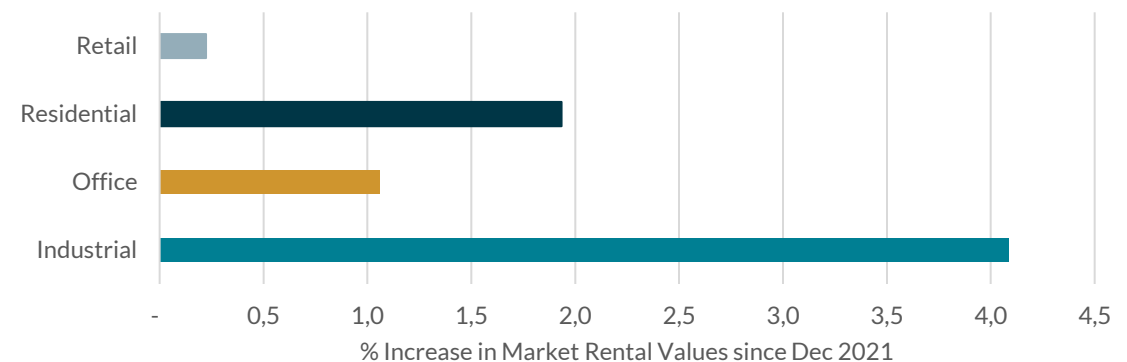
However, a more bearish scenario with continued property revaluations, a mild recession in US and Europe, and tighter lending conditions cannot be ruled out at this point. As a result, we maintain our cautious view on Global Core PRE.

### 23. (European) Industrial PRE has seen the second largest drawdown...



Source: MSCI, Van Lanschot Kempen (Sept. 2023).

### 24. ...but also the most growth in Market Rental Values



Source: MSCI, Van Lanschot Kempen (Sept. 2023).



# Private Infrastructure

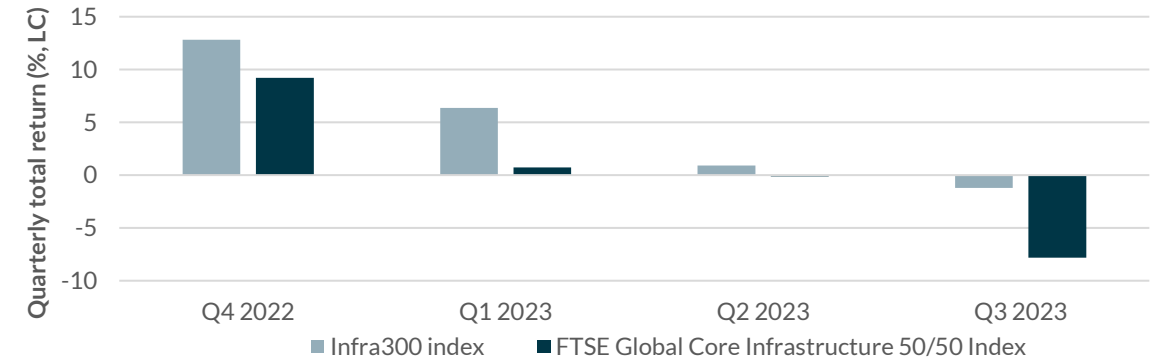
## Performance Q3-'23: Infra equity returns negative across private and listed

In Q3, Global private infrastructure equity ('PIE') also felt some pressure from elevated interest rates, weighing on valuations through a higher discount rate and higher funding and operating costs. However, its strong cashflows that are relatively agnostic to economic cycles and elevated inflation, have helped to absorb most of the rates' impact.

Global PIE total return was -1.2% (local currency) over the third quarter, compared to -7.8% (local currency) for Global Listed infrastructure equity. The price correction in Listed infra was mainly broader equity markets repricing, amongst others pricing in the effect of higher interest rates for this relatively longer-duration and higher-leverage asset class.

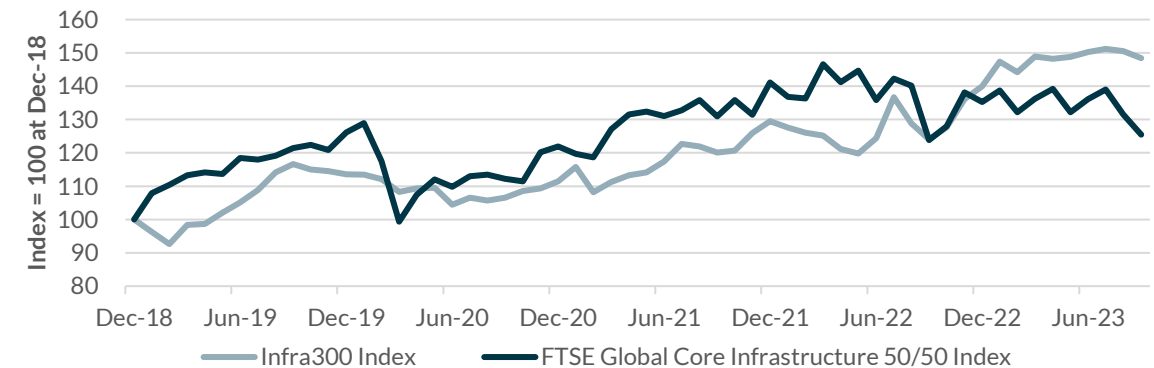
On a relative basis, Global PIE has outperformed Global Listed infrastructure equity over the past five years. We recommend for this asset class to evaluate performance on a long-term horizon as valuations tend to lag public markets and instruments tend to be less liquid.

### 25. Quarterly performance Private versus Listed Infra equity



Source: Scientific Infra and Private Assets Pte Ltd., FTSE, Van Lanschot Kempen (Sept. 2023).

### 26. Long-term performance Private versus Listed Infra equity



Source: Scientific Infra and Private Assets Pte Ltd., FTSE, Van Lanschot Kempen (Sept. 2023).

\* Global Private Infrastructure (equity): EDHEC Infra300 index, Global Listed Infrastructure (equity): FTSE Global Core Infrastructure 50/50 index. Returns in USD unless explicitly mentioned otherwise. Global PIE has a roughly 75% allocation to Core/Core+, a higher allocation to Europe and higher leverage. See also Appendix.





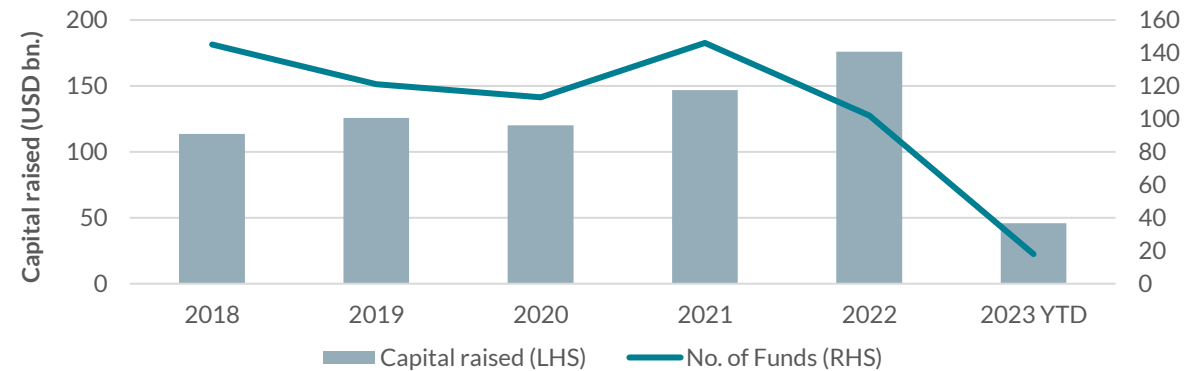
# Private Infrastructure

## Current metrics: Fundraising activity stagnant but valuations have repriced

Fundraising activity has remained stagnant, as investors exercise caution with new investments and exits due to the 'denominator effect' and a valuation gap between potential buyers and sellers in this volatile macro-economic environment\*. This has squeezed deal activity during 2023. One sign that the valuation gap is starting to close comes from secondary markets, where deal activity is slowly improving as sellers lure buyers with discounts. And as listed markets recover, the 'denominator effect' will also slowly disappear.

Interestingly, according to Scientific Infra, valuations for Global PIE have already repriced to the lower end of the historical range. This speaks to the ability of the asset class to generate very strong income returns, which help to offset negative price returns from revaluations as Global PIE total returns have remained relatively stable over the past years.

### 27. Private Infrastructure fundraising activity remains low



Source: Preqin, Van Lanschot Kempen (Sept. 2023).

### 28. Private Infrastructure valuations have cheapened to decade lows



Source: Scientific Infra and Private Assets Pte Ltd., Van Lanschot Kempen (Sept. 2023).

\* Denominator effect: occurs when one portion of a portfolio decreases dramatically, diminishing the total value of the portfolio. As a result, any segments of the portfolio that did not decrease in value now comprise a larger percentage of the total. This dilemma most commonly affects investors with less liquid Alternatives portfolios.

# Private Infrastructure

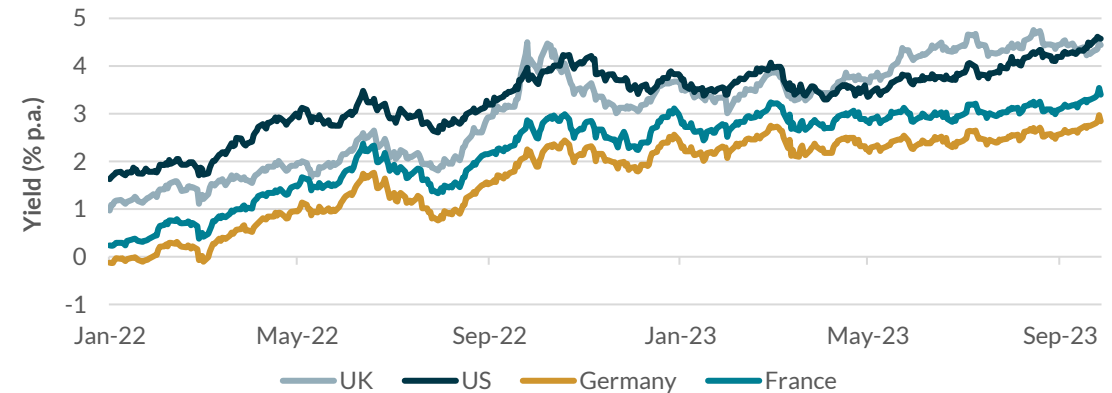
## Outlook (6-12 months): Infrastructure expected to remain resilient

In 2024, we expect continued uncertainty about economic growth and elevated interest rates. Although these factors continue to weigh on valuations, we anticipate base rate cuts by central banks in the summer, which will help to alleviate some of the pressure on capital values for this long-duration asset class. We expect the valuations gap to close further, leading to a normalization of transaction- and fundraising activity later in the year.

Commodity prices, a key input cost for infrastructure projects, have remained stable, and assuming this remains the case, infrastructure projects will continue to benefit from lower, more predictable input costs.

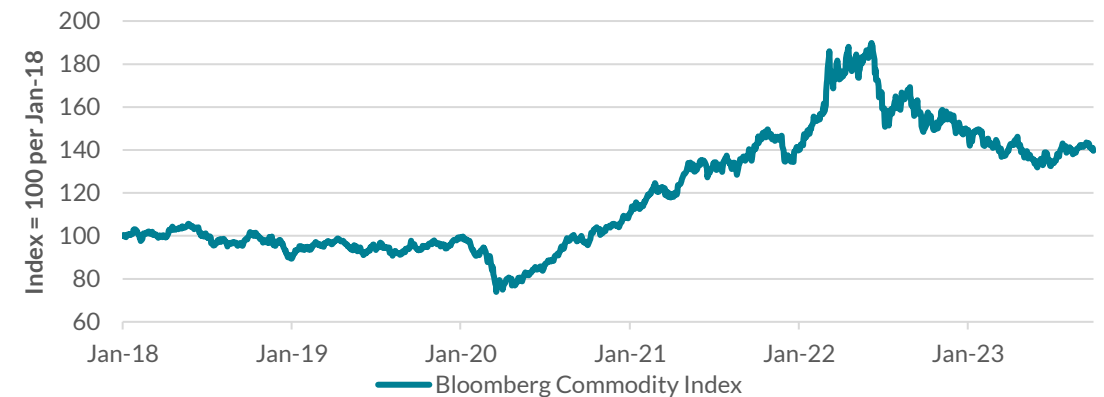
One of the key takeaways from COP28 was the need for greater investment in renewable energy to achieve the energy transition to a low carbon economy. We believe that this is one of several long-term structural trends that will continue to act as a tailwind for the power & utilities and renewables sectors. Overall, we remain moderately positive on this asset class.

### 29. Elevated interest rates continue to put pressure on asset values



Source: Factset, Van Lanschot Kempren (Sept. 2023).

### 30. Commodity prices have normalized, leading to lower input costs



Source: Capital Economics, Van Lanschot Kempren (Sept 2023).

# Private Farmland

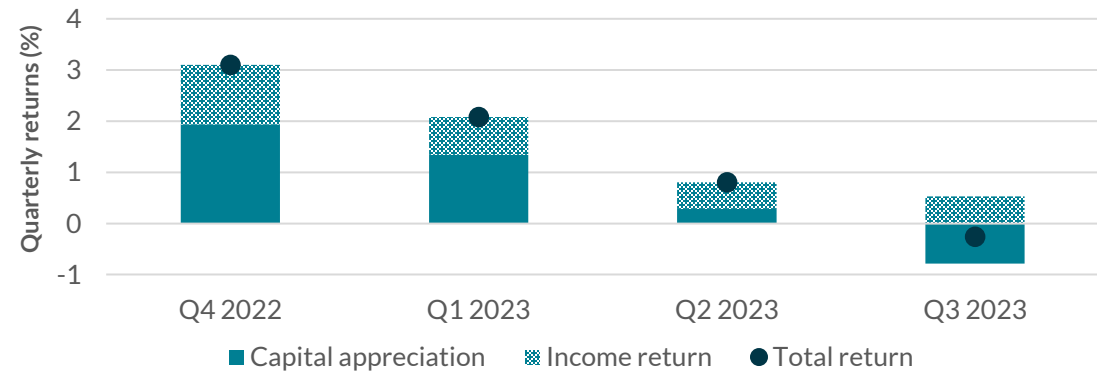
## Performance Q3-'23: Slight negative performance in Q3

Private Farmland (equity) returned -0.3% over the third quarter of 2023, with an income return of 0.5% partially offsetting the decline in capital values of -0.8%. The negative returns were largely driven by poor performance of permanent crop assets within the index.

Rising interest rates have been less of an issue for this asset class as farmers tend to operate with low loan-to-value ratios and thus the impact on debt servicing is limited.

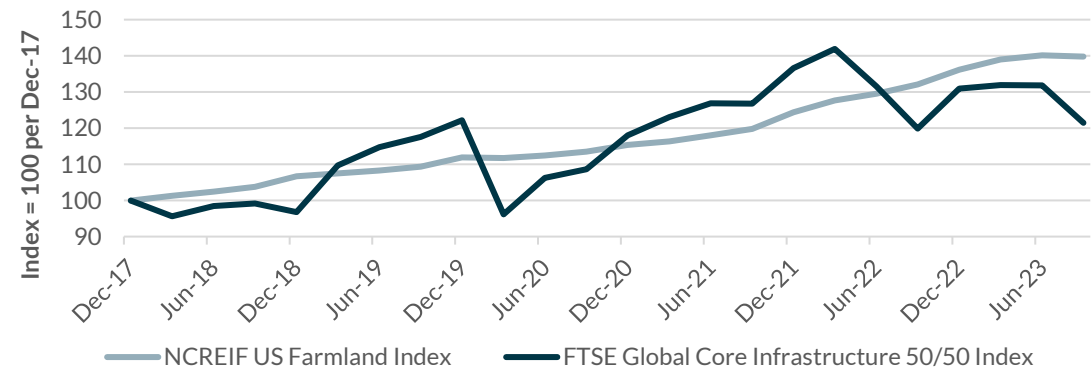
On a relative basis, Private Farmland has outperformed a comparable listed equity index (e.g., Listed infra) over the past five years. It is worth keeping in mind though that infrastructure investments tend to operate with greater leverage, which has an impact on overall returns. We recommend for this asset class to evaluate performance on a long-term horizon as the category is less liquid.

### 31. Private Farmland performance



Source: NCREIF, Van Lanschot Kempen (Sept. 2023).

### 32. Performance Private Farmland versus Listed Infra



Source: NCREIF, FTSE, Van Lanschot Kempen (Sept. 2023).

\* US Private Farmland (equity): NCREIF Farmland Property index. To our knowledge there is no US Listed Farmland index to compare to, so we have used Listed Infrastructure as a proxy comparator. See also Appendix.



# Private Farmland

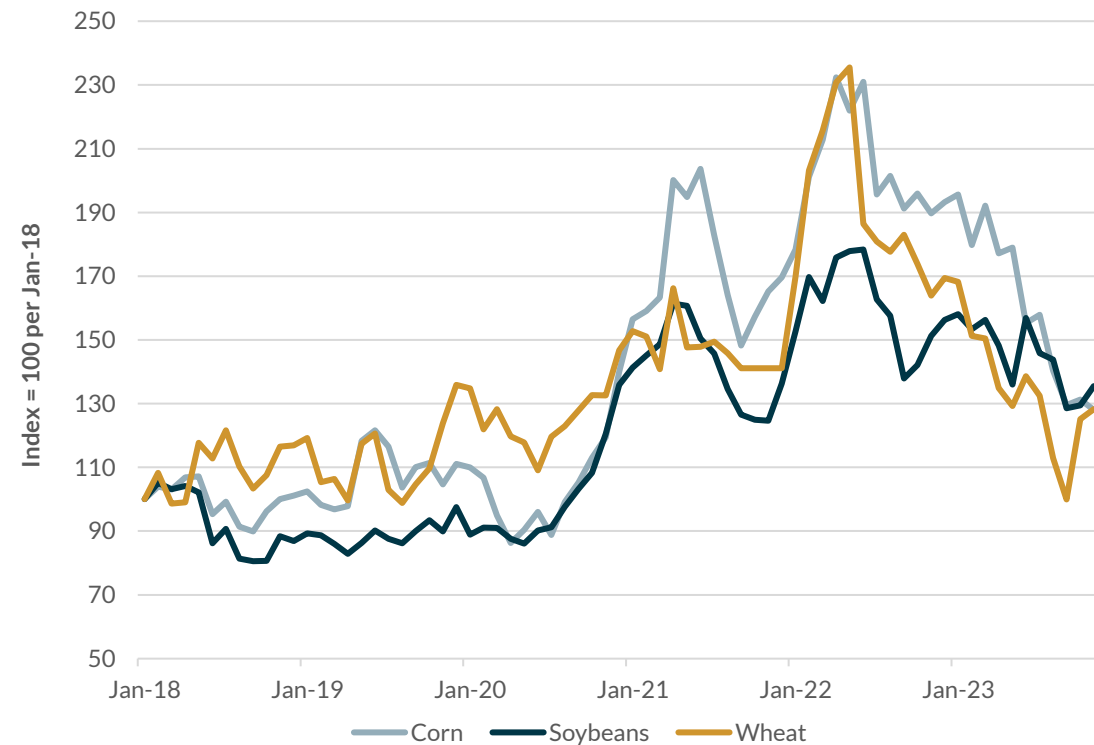
## Current metrics: Might we see another rise in food prices?

Food prices have continued to fall in the second half of 2023 as energy prices have continued to decline. Since Russia withdrawal from the UN-brokered Black Sea grain deal and it attacked Ukraine's ports, negotiations have continued to ascertain safe delivery of cheap Ukrainian grain to the world. The continuation of this export is important for global grain prices as Ukraine is one of the world's major grain exporters.

Climate effects, particularly the El Niño weather phenomenon, will have a significant impact on global agricultural output in the coming months. The United Nations forecasts that the phenomenon will continue until around mid-2024, with the rise in temperatures across the Pacific Ocean expected to result in extreme dryness in regions such as Western and Southern Africa and higher than usual rainfall in Central Asia and parts of South America.

These extreme weather conditions could lead to food shortages and, in turn, rising food prices, which typically tend to disproportionately affect developing countries.

### 33. Agricultural crop prices



Source: Factset, Capital Economics, Van Lanschot Kempen (Sept. 2023).





# Private Farmland

## Outlook (6-12 months): Retain positive view, but conscious of climate impact

The potential fall in base rates from the summer of 2024 onwards will help to reduce financing costs for farmland investments, which will be positive for the asset class.

The price of natural gas, which is a key component in the production of fertilisers, has remained broadly stable following a spike last year as a result of the war between Russia and Ukraine. Overall, this has positive implications for farmers.

As this asset class benefits from inflation-hedging characteristics, is less exposed to the economic cycle, and has positive long-term trends, we have a moderately positive view. However, we are cognisant of the risks posed by the current El Niño weather phenomenon which has the potential to reduce agricultural output. We remain moderately positive on the asset class.

### 34. US natural gas price



Source: Capital Economics, Van Lanschot Kempen (Sept. 2023).



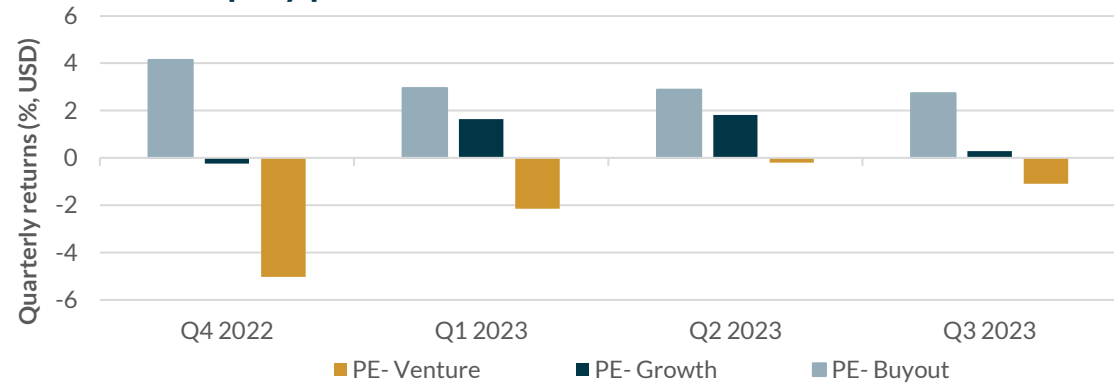
# Private Equity

## Performance Q3-'23: Buyouts continue to outperform Venture & Growth

Private equity ('PE') delivered small positive Q3-'23 returns: Buyouts (+2.7%) were the strongest performing sector, followed by Growth equity (+0.3%) and Venture capital (-1.1%). PE firms continue to face considerable headwinds from the uncertain macro-economic environment and higher interest rates, which make the cost of borrowing and servicing floating-rate debt expensive for portfolio companies with considerable leverage.

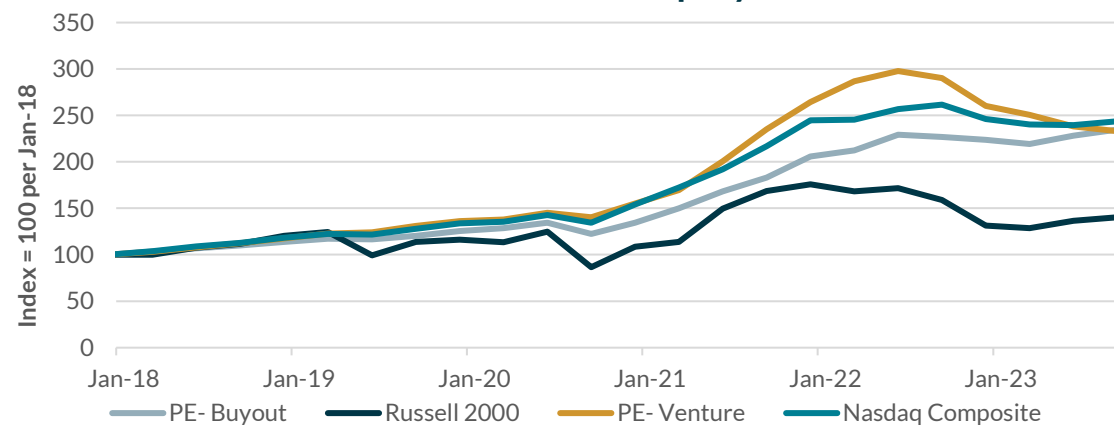
On a relative basis, Buyouts have strongly outperformed their listed equity comps (US small caps, Russell 2000 index) over the past five years. Performance for Venture capital was close to the Nasdaq Composite (US growth stocks). We recommend for this asset class to evaluate performance on a long-term horizon as valuations tend to lag public markets and instruments are less liquid.

### 36. Private Equity performance



Source: Preqin, Van Lanschot Kempen (Sept. 2023)..

### 37. Performance Private versus Listed Equity



Source: Preqin, Van Lanschot Kempen (sept 2023). Returns in USD unless stated otherwise.

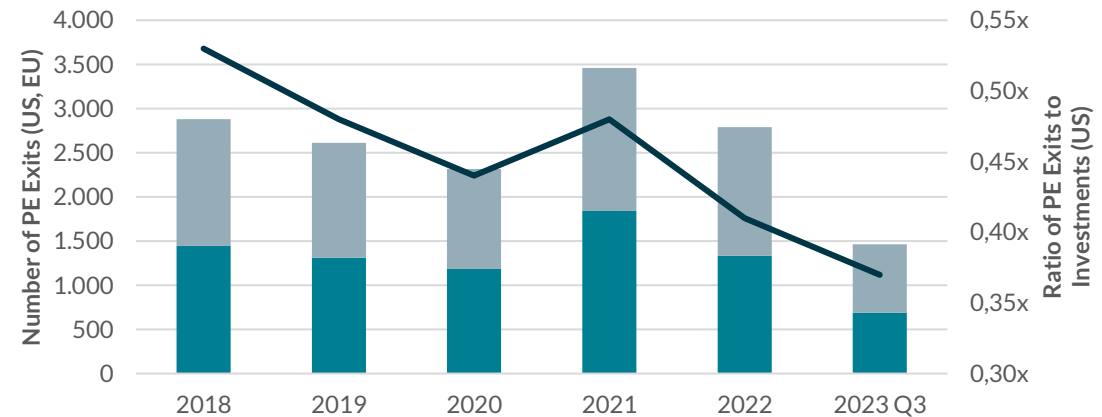
# Private Equity

## Current metrics: Exit activity slow, buyout holding period is longer

Exit activity remains relatively low by historical standards. Private equity's ratio of exits relative to investments has continued to fall over the past years (0.37x per Q3-23), also in value terms. PE firms have found it difficult to exit investments at compelling valuations due to macro uncertainty, higher financing costs, lower credit availability, and a stagnant IPO market.

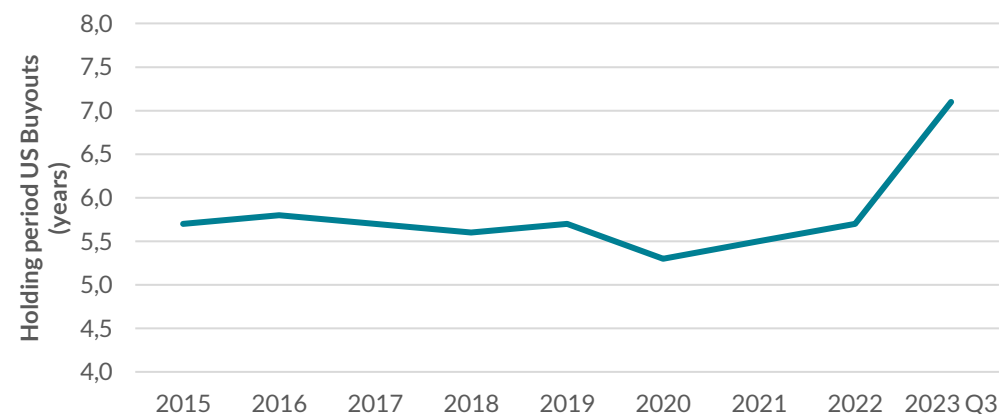
Consequently, many PE firms hold onto their investments longer, with the aim to exit at higher multiples by growing portfolio companies' earnings or hoping that interest rates moderate. As interest rates have moderated more recently, valuation expectations between buyers and sellers may clear, which could lead to more exits going forward. This could help PE managers, who have recently felt increasing pressure to find an exit price and return cash to clients.

### 38. Exit activity remains relatively low by historical standards



Source: Pitchbook, Van Lanschot Kempen (Sept. 2023).

### 39. US Buyout holding period has risen to 7 years



Source: S&P Global, Preqin, Van Lanschot Kempen (Sept. 2023).



# Private Equity

## Outlook (6-12 months): Careful, though softer entry valuations could provide an opportunity

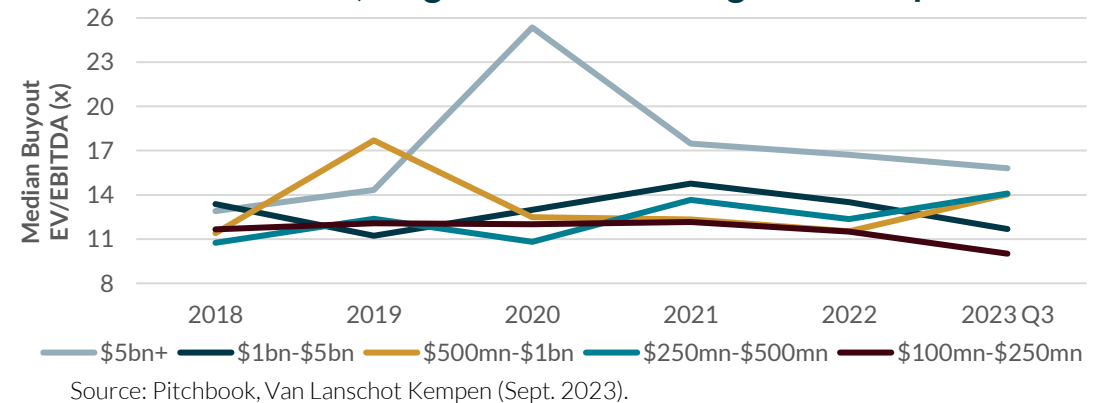
Private equity is in a period of adjustment. As deal activity has slowed down across sectors and regions, PE managers have adjusted their deal strategies to continue to deploy capital.

Valuations have been relatively stable over the past years, with a large dispersion between global megadeals (trading at an EV/EBITDA multiple of 16x) and smaller deals (trading cheaper, around 10x). With increased client pressure to sell assets and return cash, we expect entry valuations to soften.

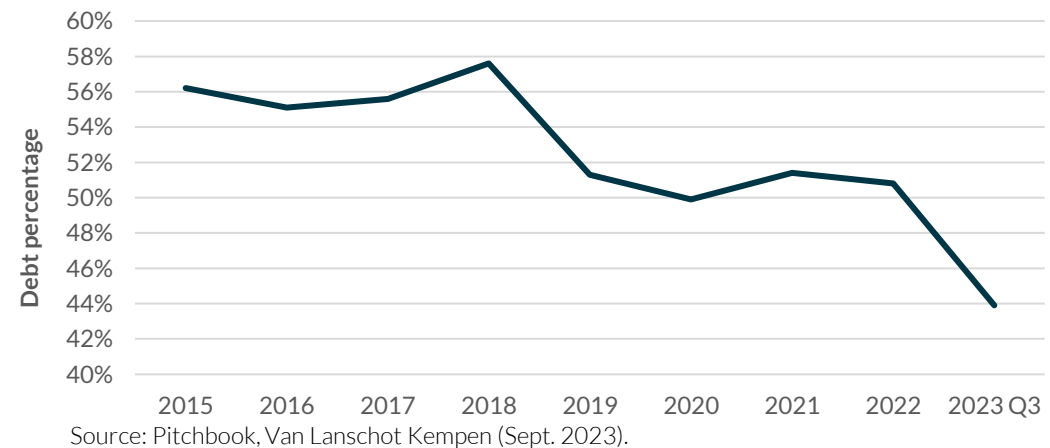
Less availability and higher cost of debt has forced private equity buyers to increase equity contributions. Average equity contributions are now well above 50%. Even though the debt contribution is lower, interest payments have increased, pressuring interest coverage ratios at portfolio companies.

While we remain cautious on Private equity in principle, we note that private equity funds could still benefit from the investment environment from an entry valuation perspective.

### 40. Valuations stable, megadeals trade at highest multiples



### 41. Equity financing has increased further as cost of debt has risen



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# Appendix

## Description of Alternative Asset classes (benchmarks)

### Corporate Direct Lending

The Cliffwater Direct Lending Index (CDLI) - Senior is an asset-weighted index by reported fair value of approximately 3500 directly originated US middle market (senior secured) corporate loans (total market cap around \$100bn.). Returns are unlevered, gross of fees, represented by underlying assets of Business Development Companies (“BDCs”), We see US as representative for global exposure as it covers roughly 65% of the global market.

### Structured Credit

For (mezzanine) Structured Credit an equal-weighted mix of 3 sector indices (gross returns) has been used. The JP Morgan Collateralized Loan Obligation BBB index (CLOIE) is a value-weighted index of USD-denominated BBB CLOs. The ICE BofA US BBB CMBS index (CB40) is a value-weighted index of USD-denominated BBB CMBS. Citi provides US non-agency RMBS Credit Risk Transfer M2 (typically BB rated) data. We see the US as representative for global exposure as it covers roughly 70% of the global Structured Credit market (per Dec-2021).

### Corporate Distressed Debt

The HFRI Event-Driven Distressed Restructuring index is an AuM-weighted index of funds that focus on investing predominantly in debt instruments issued by companies (globally), trading at a significant discount as a result of (formal or market perception of) near-term bankruptcy proceedings. Returns are reported net of all fees.

### Private Real Estate (equity)

The MSCI Quarterly Property indices are value-weighted and measure the unlevered, net of fee, total return of private directly-held property investments by region, with a Core risk profile. Total market cap of selected indices is roughly USD 430bn. for US, USD 300bn. for Europe and USD 87bn.

### Private Infrastructure (equity)

The EDHEC Infra300 equity index is equally-weighted and represents the marked-to-market (net of fees) performance of 300 private infrastructure equity investments (globally, with a market cap of \$304bn.).

### Private Farmland (equity)

The NCREIF Farmland index is a value-weighted index, representing the unlevered (net of fees) performance of a large pool of individual income-producing US-based agricultural properties (\$16bn. total market cap), acquired in the private market for investment purposes only, as held by US pension funds.

### Private Equity

The Preqin Private equity Quarterly indices are value-weighted indices, that use fund-level cash flow transactions and net asset values for over 4000 private equity funds collectively worth more than \$7.7 trillion.

Please note:

- 1) Reported performance for a public asset class closely matches its real-world performance since an investor can immediately and fully invest in the entire asset class. Fund-selection uncertainty, commitment pacing, and uncalled and/or uncommitted components are important contributors to real-world performance of private assets.
- 2) For reasons of comparison, we have used in this publication the same cut-off date for public asset classes (despite more recent data available) as for private asset classes.

Sources: Cliffwater, JP Morgan, Citi, ICE BofA, SIFMA, AFME, HFR, MSCI, Scientific Infra, NCREIF, Preqin.



