VAN LANSCHOT KEMPEN

INVESTMENT MANAGEMENT

Alternatives Quarterly Views

Edition Q3 2023

Our quarterly insights into Alternatives

Contents

Introduction

Macro-economic outlook

We believe growth continues to decelerate. In reaction to high inflation, central banks have hiked interest rates aggressively and are shrinking their balance sheets. As a result of this monetary tightening, monetary aggregates and bank credit have stalled or are even falling. We think a mild recession in the US in the first half of 2024 and in the eurozone in the second half of 2023 is likely. Inflation will moderate, but not enough for central banks to cut rates soon. The peak in official interest rates is near or may already have been reached. With a peak in official rates and inflation receding, the peak in bond yields may also have been reached.

Summary of Views (6-12 months' horizon)

In the current environment, within Alternative Credit, we have a moderately positive view on (mezzanine) Structured Credit and Distressed Debt, while we are cautious on Corporate Direct Lending given the economic cycle. Within Real Assets, we like the inflation-hedging characteristics of Private Infrastructure and Farmland but expect that Private Real Estate may continue to suffer from downward valuation revisions. Similarly, the current macro-economic environment, combined with elevated valuations, makes us cautious on Private Equity (particularly large buyout funds).

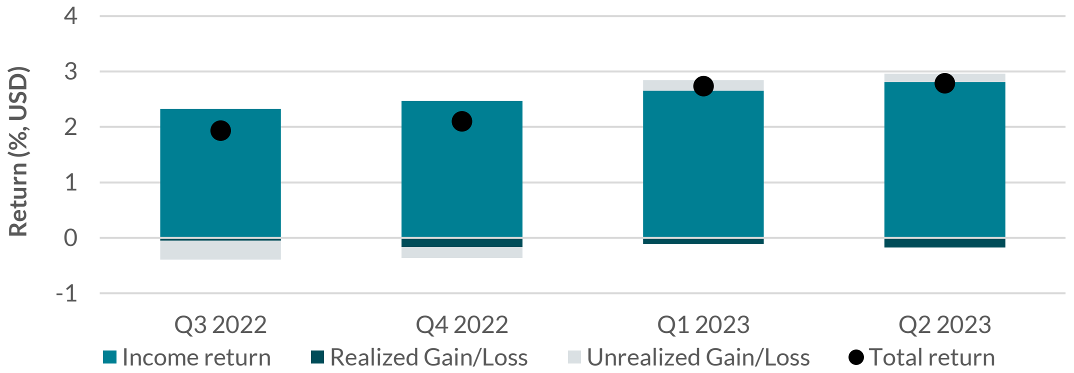
Corporate Direct Lending

Performance Q2-'23: Stable positive total return, driven by income

US (senior) Corporate direct lending returned +2.8% over the second quarter of 2023. Like previous quarters, total return was mainly driven by income return (+2.8%). Realized losses were -0.1% for the quarter, reflecting a benign credit default environment. Unrealized losses were +0.1% as broader market spreads tightened, leading to a price increase on some loans.

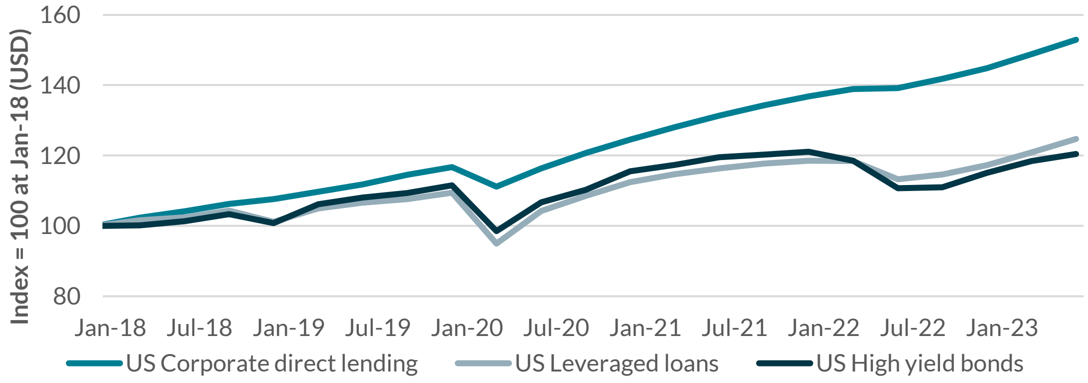
On a relative basis, US Corporate direct lending has outperformed US High yield corporate bonds and US Leveraged loans over the past five years. Over Q2-'23, US Corporate direct lending outperformed US High yield corporate bonds (+1.6%) while slightly underperforming US Leveraged loans (+3.1%)*. We recommend 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) 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, Credit Suisse, Van Lanschot Kempen (Sept 2023).

* Corporate Direct Lending: Cliffwater CDLI-S Index, US High Yield: ICE BofA US High Yield Master II Index (H0A0), US Leveraged loans: Credit Suisse Leveraged Loan index. See also Appendix.

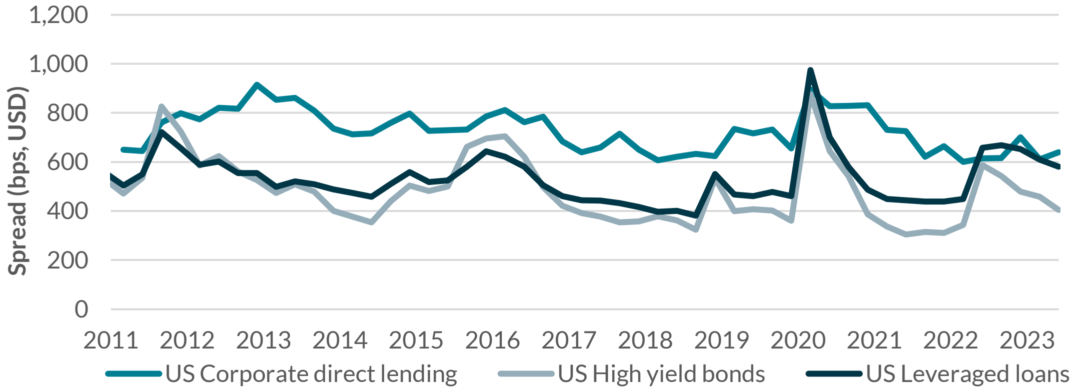
Corporate Direct Lending

Current metrics: A compelling yield but spreads below historical average

Per Q2-'23 the spread on US (senior) Corporate direct lending was 640 basis points (bps.), while US Leveraged loans and US High yield bonds had lower spreads (581 bps. and 405 bps. respectively). However, US Corporate direct lending spreads are well below their historical average. At the same time, rising interest rates have lifted yields on floating rate asset classes to above 10% (for US Corporate direct lending and US Leveraged loans). This provides a healthy starting point for future returns.

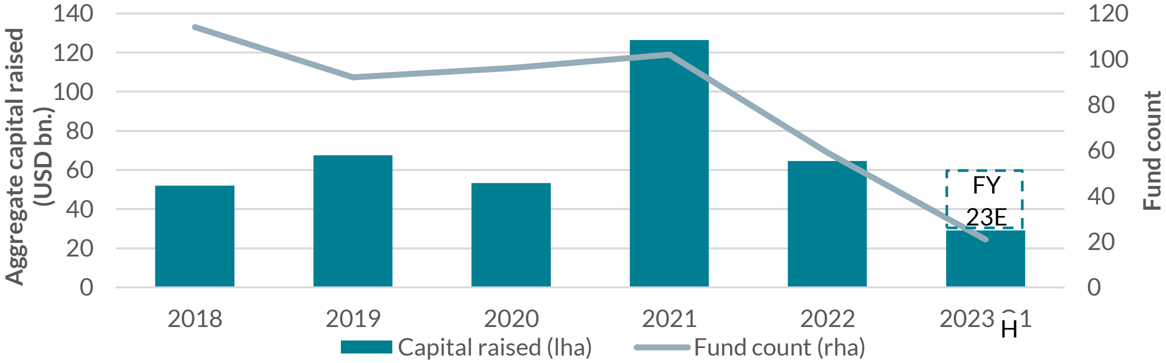
Fundraising activity for US Corporate direct lending has slowed versus 2021-2022 but is still ahead of pre-Covid levels. Corporate direct lenders continue to take market share from banks in speculative-grade issuance as banks have tightened their lending standards. However, mergers & acquisitions activity, a major source of direct loan originations, is still relatively slow.

3. Spread on US (senior) Corporate direct lending is below historical average



Source: Cliffwater, ICE BofA, Credit Suisse, Pitchbook, Van Lanschot Kempen (Sept. 2023).

4. Fundraising activity has slowed, but still ahead of pre-Covid levels



Source: Cliffwater, ICE BofA, Credit Suisse, Pitchbook, Van Lanschot Kempen (Sept. 2023).

* Corporate Direct Lending: Cliffwater CDLI-S Index, US High Yield: ICE BofA US High Yield Master II Index (H0A0), US Leveraged loans: Credit Suisse Leveraged Loan index. Spread calculations: DL & LL premium over Libor-3M; HY OAS over TSY. See also Appendix.

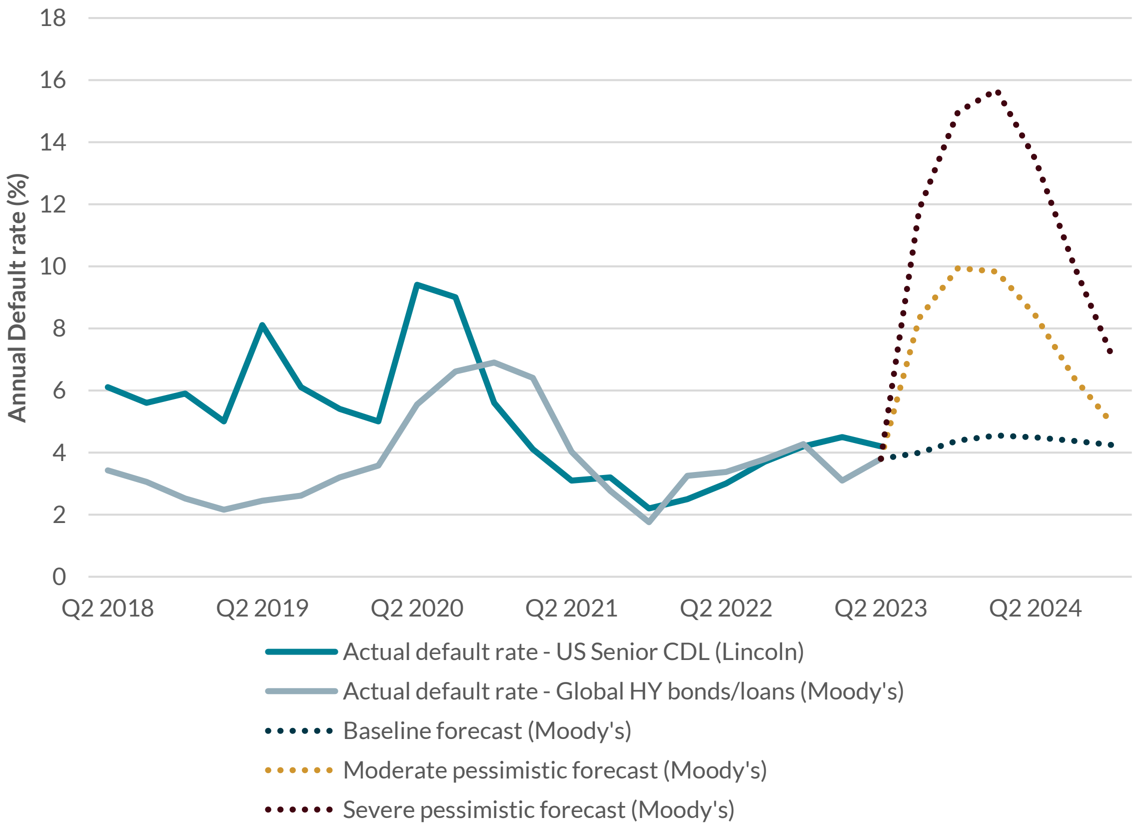
Corporate Direct Lending

Outlook (6-12 months): Spreads low, conservative underwriting is key

The flipside of higher effective yields are tighter financing conditions that make floating-rate financing more expensive for borrowers. Over the past quarters, speculative-grade borrowers' default rates have slowly increased. The actual default rate on US HY bonds and loans is 3.8% per Q2-'23 (source: Moody's), while 4.2% on US senior corporate direct loans (source: Lincoln). While there is limited historical default loss data for this asset class, direct lenders are relatively close to borrowers and may thus identify stress earlier, and may negotiate stronger covenant protections, which should lead to relatively lower credit losses.

As we expect a further deceleration of growth, conservative underwriting standards and extensive restructuring knowledge are essential. With tighter financing conditions and a relatively low spread by historical standards, we hold a cautious view on this asset class for the upcoming quarters.

5. Corporate default rates – actual and forecasts



Source: Moody's Investor Services, Lincoln, Van Lanschot Kempen (Sept. 2023).

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

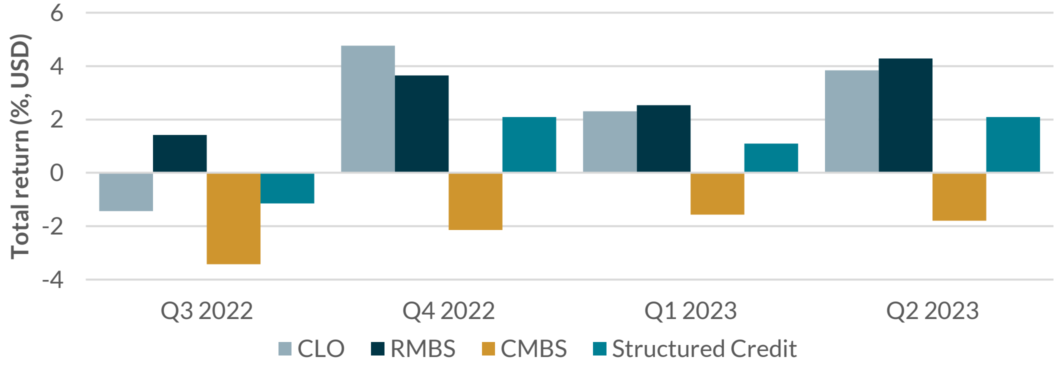
Structured Credit

Performance Q2-'23: Positive return, despite weakness in CMBS sector

Structured Credit (private, mezzanine) returned +2.1% over the second quarter of 2023. US BB-rated non-agency RMBS was the best performing sector (+4.3%), followed by US BBB-rated CLOs (+3.8%), while US BBB-rated CMBS had another weak quarter (-1.8%). Weakness in CMBS comes primarily from a repricing of cap rates and the ongoing stress in lower quality offices due to cyclical and secular trends (e.g., elevated vacancy rates, refinancing risk). Credit rating downgrades in CMBS currently outpace credit rating upgrades. It is worth remembering that CMBS invest in (typically pools of) commercial real estate loans (not equity), which typically offer significant credit enhancement.

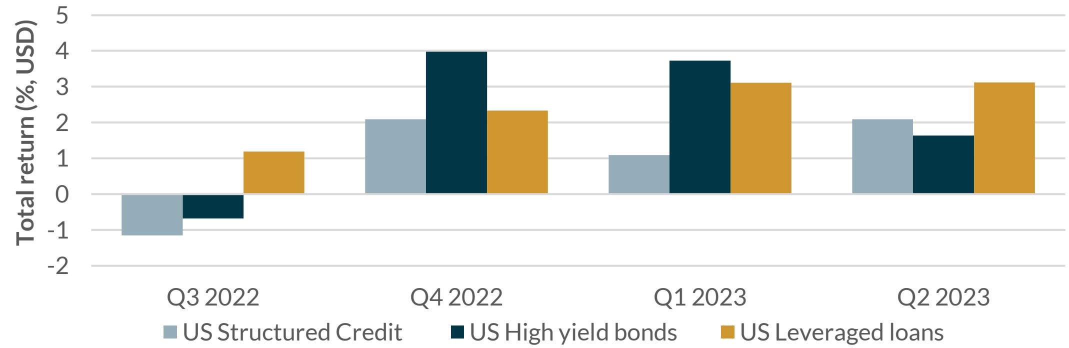
On a relative basis, Structured credit performed better over Q2-'23 than US High yield corporate bonds (+1.6%) while underperforming US Leveraged loans (+3.1%)*.

6. Structured Credit performance



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

7. Relative performance versus High Yield bonds and Leveraged loans



Source: JP Morgan, ICE BofA, Citi, Credit Suisse, 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: Credit Suisse Leveraged Loan index. See also Appendix.

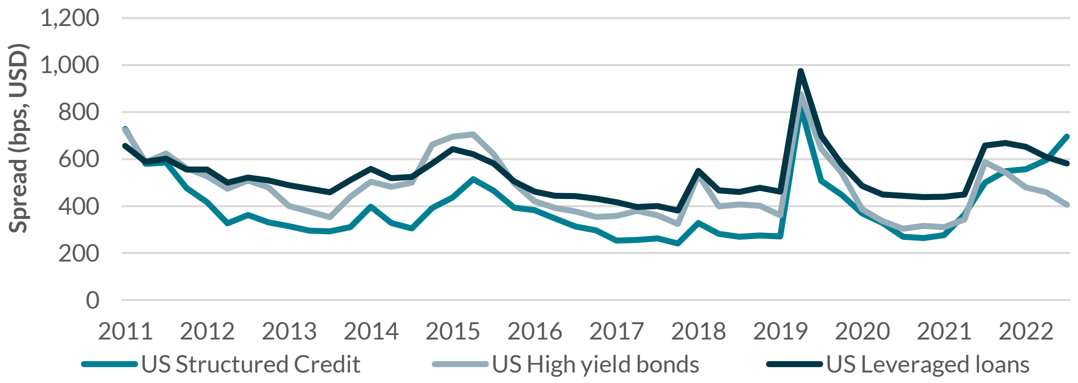
Structured Credit

Current metrics: Spreads are relatively wide, driven by CMBS segment

Per the end of the second quarter, spread on Structured credit was 696 bps., while US High yield and US Leveraged loans had lower spreads (405 bps. and 581 bps. respectively). Structured credit spreads widened over the past quarters, mainly driven by spread widening in CMBS. Structured credit spreads are well above their historical average. Meanwhile spreads on US High yield and US Leveraged loans tightened over past quarters.

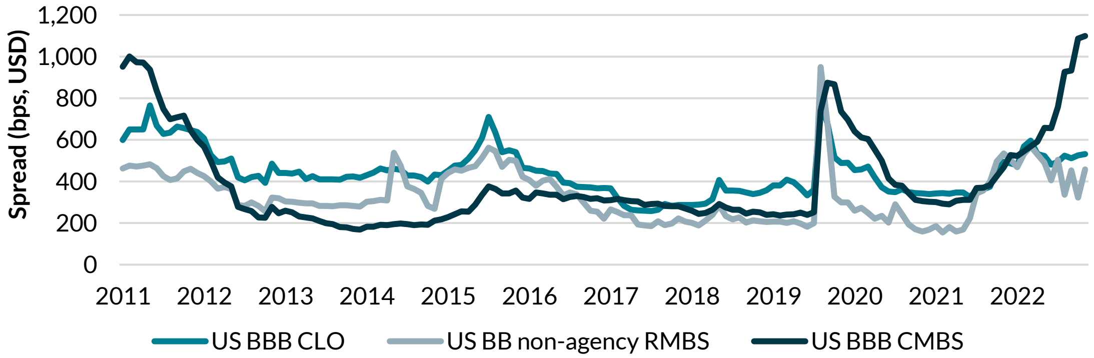
Over Q2-'23, US BBB-rated CLO spreads were flat, while US BB-rated non agency RMBS spreads widened by 122 bps. to 458 bps. US BBB-rated CMBS spreads widened by 171 bps. to 1099 bps. (for a total yield of 15.3%).

8. Spread on Structured credit has risen beyond US Leveraged loans



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

9. Elevated spreads mainly due to stress in CMBS segment



Source: JP Morgan, ICE BofA, Citi, Credit Suisse, Van Lanschot Kempen (Sept. 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: Credit Suisse Leveraged Loan index. See also Appendix.

Structured Credit

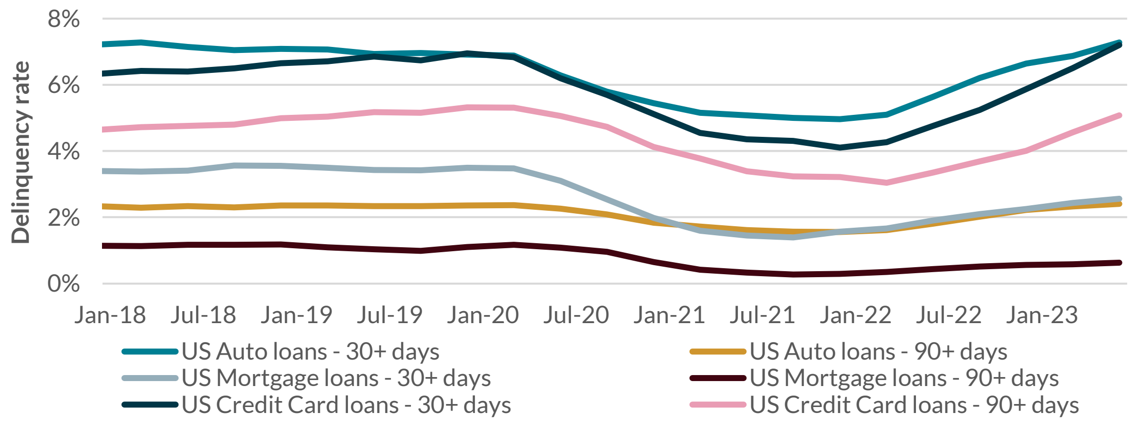
Outlook (6-12 months): Spreads compensate for late-cycle credit trends

Structured credit benefits from its diversified exposure to consumer and corporate borrowers, structural protection, and typically well-diversified loan collateral pools.

Credit performance has gradually deteriorated to pre-Covid levels across sectors as the economy slows. Delinquency rates for ABS and RMBS have risen back to pre-Covid levels, particularly for lowest FICO borrowers and 2021-2022 vintages. Within CMBS, lower-quality office loans near their maturity date are having trouble refinancing at higher rates. For CLOs, leveraged loan defaults and downgrades are relatively low but expected to rise.

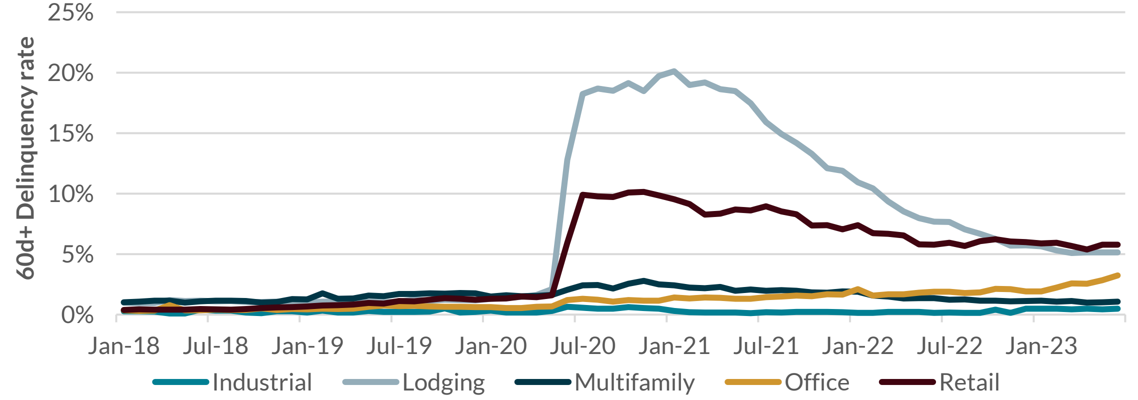
We believe that spreads currently compensate well for an expected gradual deterioration of credit performance across sectors. This makes us moderately positive on the asset class.

10. ABS & RMBS - Early loan delinquencies rising, serious delinquencies low



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

11. Conduit CMBS – 60+ day delinquency rates rising, driven by office loans



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

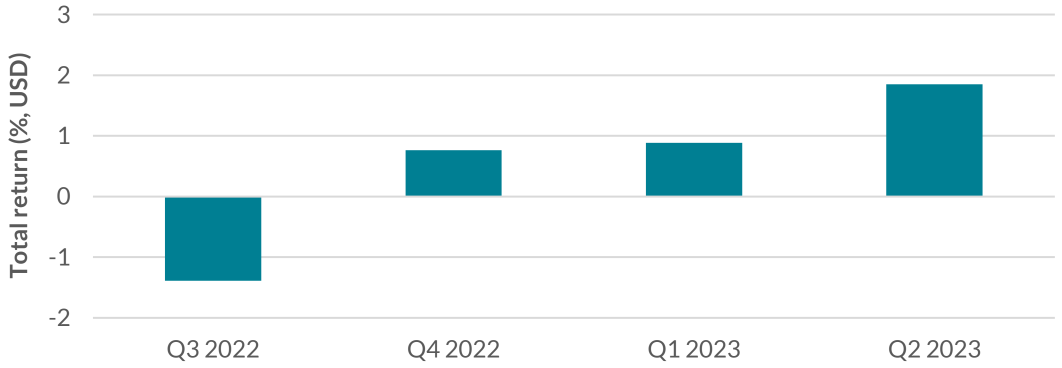
Distressed Debt

Performance Q2-'23: Strong positive return, like High yield bonds

Distressed Debt returned +1.9% over the second quarter of 2023. On a relative basis, Distressed Debt performed better over Q2-'23 than US High yield corporate bonds (+1.6%) while underperforming US Leveraged loans (+3.1%)*.

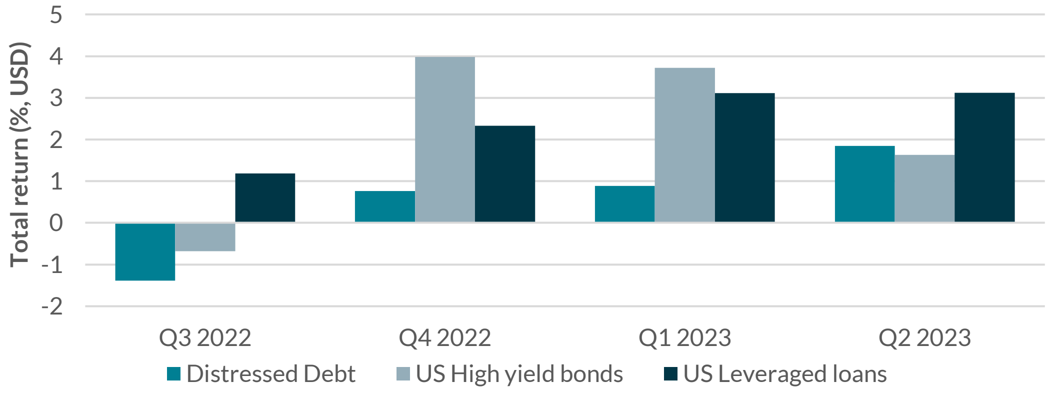
With the cost of capital doubling over the past 18 months and expected to remain elevated for the foreseeable future, many highly indebted corporates are facing the challenge of addressing their balance sheets that were built in a zero-interest rate world. Unsurprisingly, default activity has continued to rise gradually throughout Q2-'23.

12. Distressed Debt performance



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

13. Relative performance versus High Yield bonds and Leveraged loans



Source: HFR, ICE BofA, Credit Suisse, Van Lanschot Kempen (Sept. 2023).

* Distressed Debt: HFRI Event Driven: Distressed/Restructuring Index, US High Yield: ICE BofA US High Yield Master II Index (H0A0), US Leveraged loans: Credit Suisse Leveraged Loan index. See also Appendix.

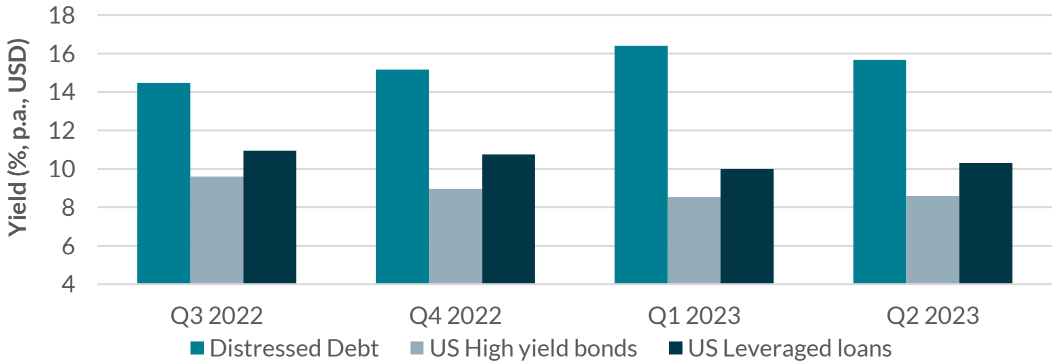
Distressed Debt

Current metrics: Excess yield has come down, along with distress ratio

Per the end of the second quarter, the yield on the Distressed debt opportunity set has slightly decreased to 15.7%, while yields on US High yield bonds and US Leveraged loans have increased to 8.6% and 10.3% respectively*. Yields on Distressed debt are higher to compensate for its relatively higher credit risk.

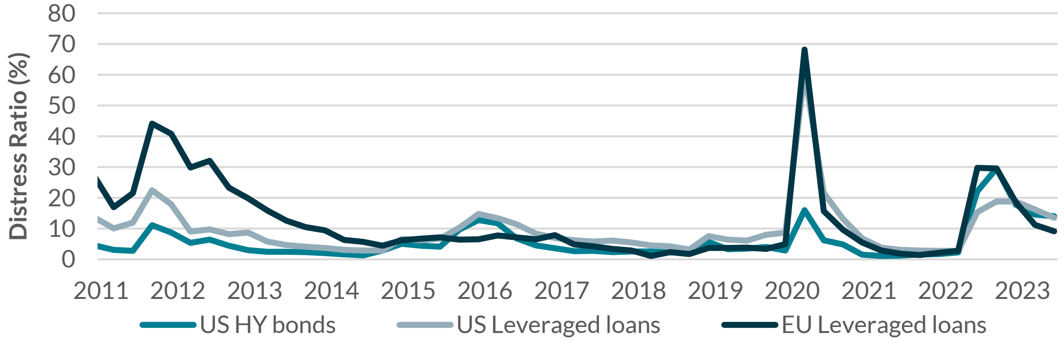
The distress ratio, a demonstrated frontrunner for future potential default activity, has risen considerably during 2022, but has fallen back over the past quarters, towards 14.0% for US High yield, 13.5% for US Leveraged loans and 9.1% for European Leveraged loans. However, these are still elevated levels versus longer-term historical averages.

14. Excess yields on the Distressed debt opportunity set are considerable



Source: ICE BofA, Credit Suisse, Van Lanschot Kempen (Sept. 2023).

15. Distress Ratio has fallen over past quarters



Source: ICE BofA, Credit Suisse, Van Lanschot Kempen (Sept. 2023).

* Distressed Debt opportunity set and 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 Credit Suisse Leveraged Loan index trading below 90 cash price, and European Leveraged loans in Credit Suisse Western- European Leveraged Loan index trading below 90 cash price. All including distressed exchanges.

Distressed Debt

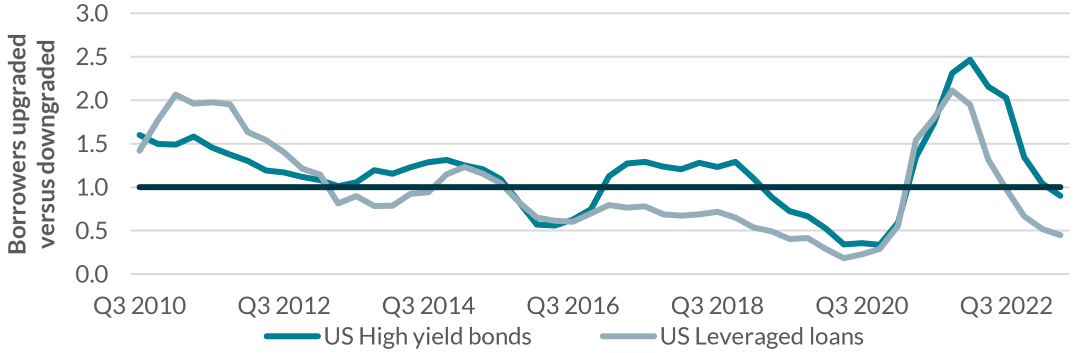
Outlook (6-12 months): A (corporate) distress cycle may be building

As interest rates remain elevated, companies that make heavy use of (floating rate) financing come under pressure. With refinancing more difficult as banks have tightened lending standards, this could lead to debt restructurings.

Stressed/distressed volumes remain at elevated levels with ca. $500bn of High yield bonds and Leveraged loans trading below $80 and $90, respectively. The US and European leveraged finance markets face over $500bn of maturities by 2025. As companies tend to refinance at least 18 – 24 months in advance of maturities, we expect to see an uptick in activity and in defaults, and therefore attractive opportunities for Distressed Debt.

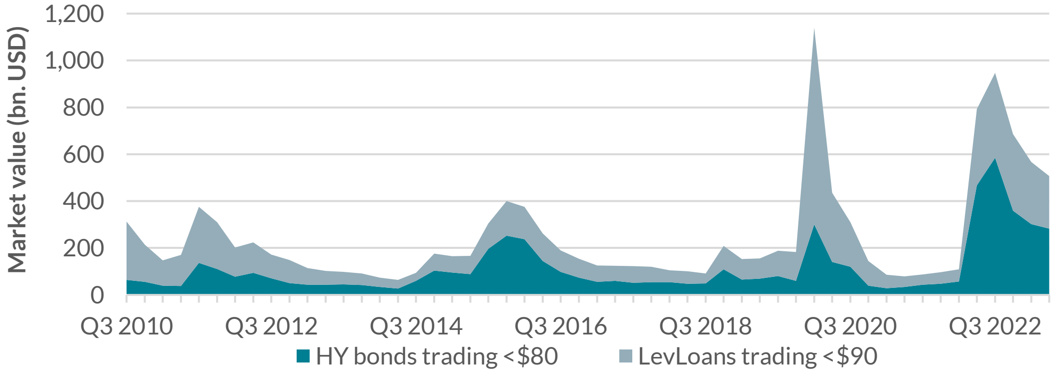
As we expect a further deceleration of growth and see a large opportunity set, we have a moderately positive view on this asset class.

16. Upgrade-to-downgrade ratio continued to decline in Q2



Source: ICE BofA, Credit Suisse, Van Lanschot Kempen (Sept. 2023).

17. Distressed opportunity set remains large in historical context



Source: ICE BofA, Credit Suisse, Van Lanschot Kempen (Sept. 2023).

* Distressed opportunity set and 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 Credit Suisse Leveraged Loan index trading below 90 cash price, and European Leveraged loans in Credit Suisse Western-European Leveraged Loan index trading below 90 cash price. All including distressed exchanges.

Private Real Estate

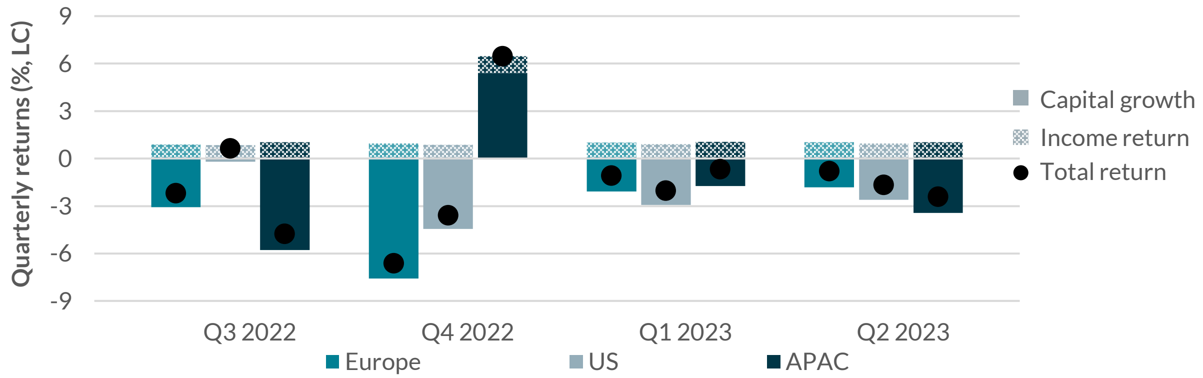
Performance Q2-'23: Negative returns across regions in Private real estate

US Private Real Estate returned -1.6% over the second quarter of 2023, while European Private Real Estate returned -0.8%. APAC Private Real Estate returned -3.4%. It is worth noting that the APAC returns are in USD terms, however allowing for currency movements over the quarter has a minimal impact on the overall return, which we expect will have been marginally positive in local currency terms.

In Europe, best performing sector was Retail (+0.4%), whilst the worst performing sector was Offices (-2.4%). In the US, best performing sector was Industrial (0.0%), whilst the worst performing sector was Offices (-6.1%).

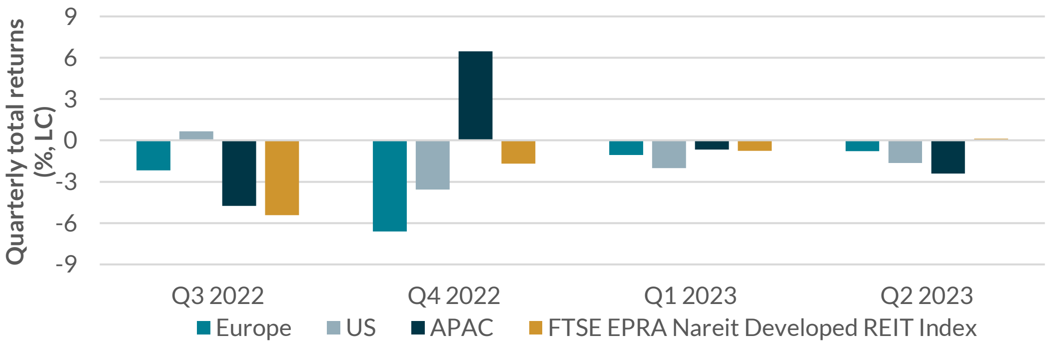
On a relative basis, global Private Real Estate underperformed global Listed Real Estate (Q2: +0.1%) during the second quarter. Both categories significantly underperformed broader equity markets (MSCI World, Q2: +6.8%).

18. Private Real Estate performance



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

19. Performance Private versus Listed Real Estate



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

* US Private Real Estate: MSCI U.S. Quarterly Property (Unfrozen) index, European Private Real Estate: MSCI Europe Quarterly Property (Unfrozen) Index, APAC Private Real Estate: MSCI Global PFI Pacific Funds Quarterly Property (Unfrozen) Index, Global Listed Real Estate: FTSE EPRA NAREIT Developed index. See also Appendix.

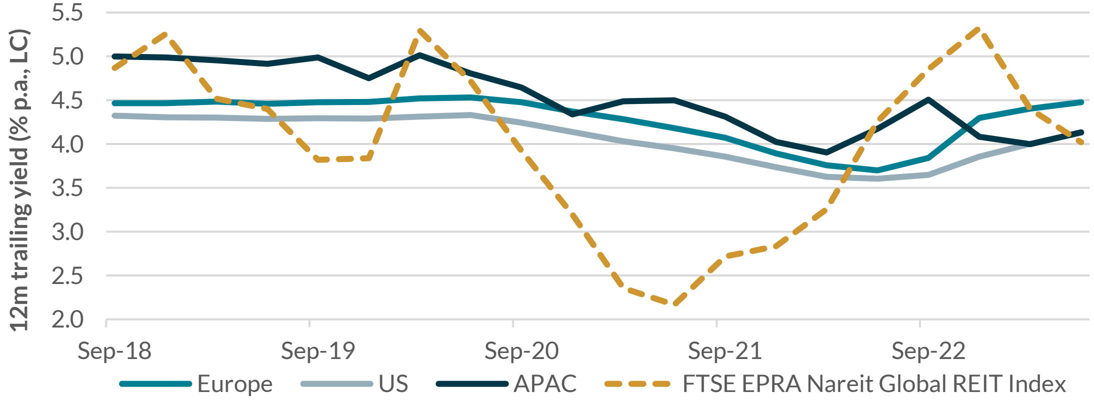
Private Real Estate

Current metrics: Continued pressure on prices and transaction volumes

Rising interest rates have continued to apply downward pressure on capital values and transaction volumes. The fall in capital values have led to a rise in Private Real Estate ("PRE") yields. These Net Operating Income yields for US and European core PRE increased to 4.1% and 4.5% respectively, whilst yields in the APAC region also rose, to 4.1%. In comparison, the trailing yield on listed real estate (4.0%) has recently fallen below Global PRE. Although yields on public and private are similar, the volatility in listed real estate has been noteworthy: prices have fallen by 20% from their peak in December 2021 (compared to a 5% price fall in PRE).

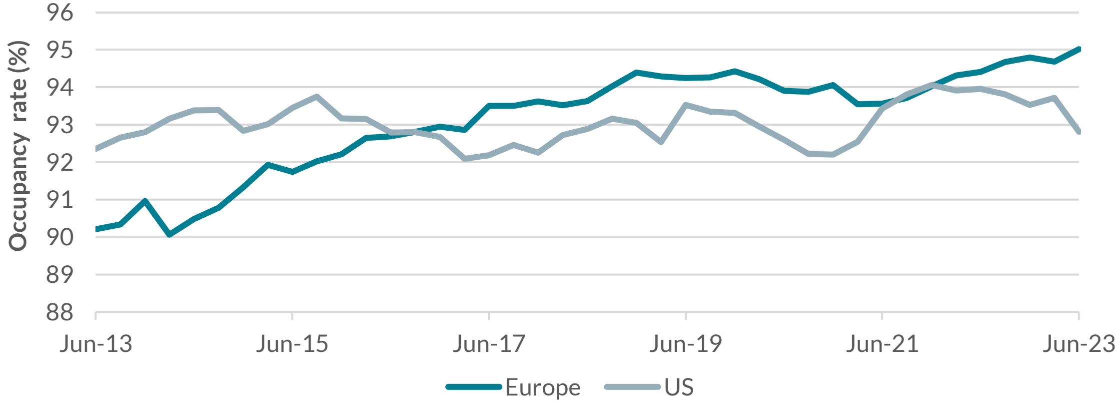
Fundamental metrics remain healthy, with occupancy rates in Europe at historically high levels and market value rents growing steadily.

20. Yield evolution



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

21. Occupancy rates



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

Private Real Estate

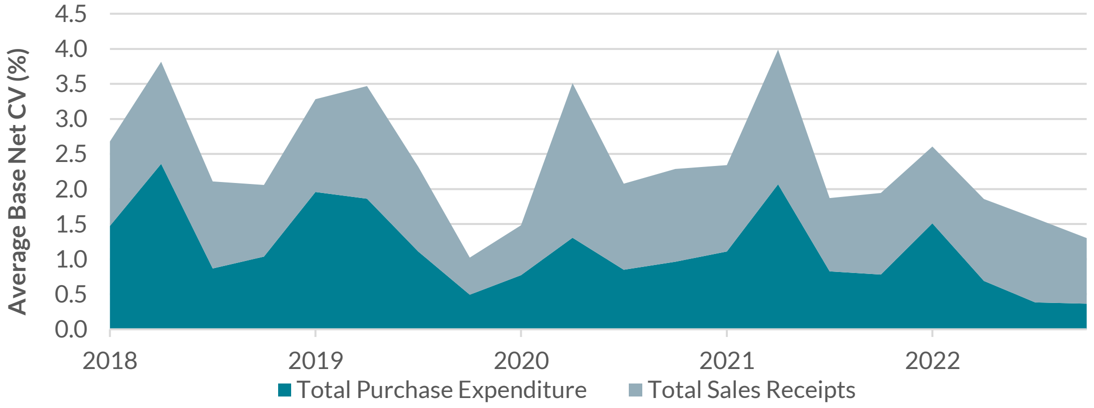
Outlook (6-12 months): Expect to see further revaluations going forward

Transaction activity remains slow and has slowed down further in response to rising borrowing costs. We expect that transaction activity in secondary markets will pick up once sellers are more willing to transact at (lower) valuations to persuade buyers. In the logistics sector we are seeing some tentative signs. Development activity has also dropped as higher financing costs weigh on profitability.

The outlook for the residential sector remains relatively positive, largely due to supply-demand imbalances. A push towards simpler supply chains and "nearshoring" will act as a tailwind for industrial and logistics sectors. Growth in e-commerce will also benefit the industrial sector, however this factor poses risks for the retail sector. The office sector remains most vulnerable due to 'working from home' and high capex required to improve sustainability of buildings.

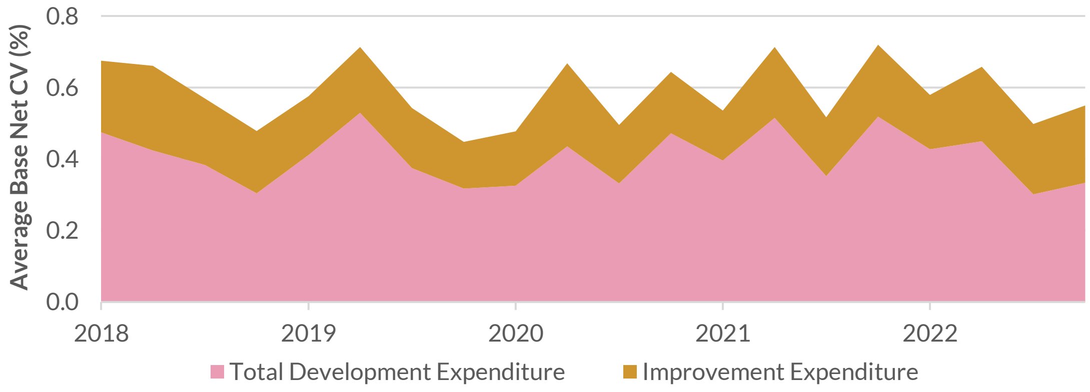
As we expect a further growth deceleration and continued pressure on valuations, we maintain our cautious view.

22. Global Private Real Estate purchase and sale activity



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

23. Global Private Real Estate development and improvement expenditures



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

Private Infrastructure

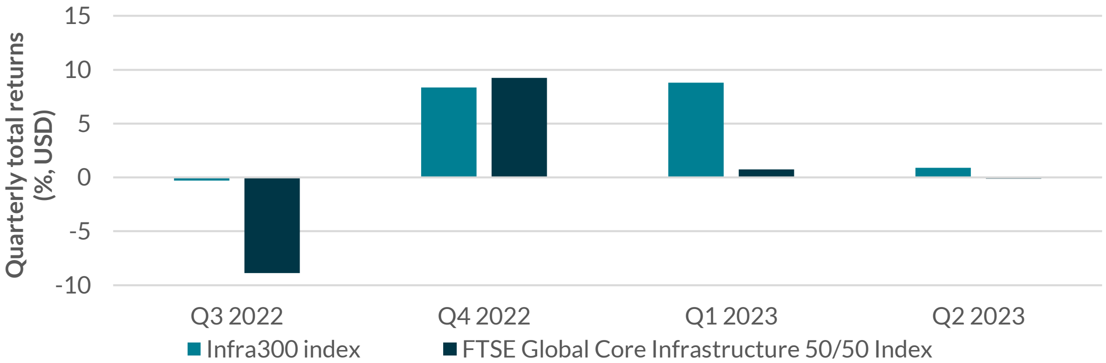
Performance Q2-'23: Returns moderate in second quarter of 2023

Global Private infrastructure equity returned +0.9% over the second quarter of 2023, compared to -0.1% for global Listed infrastructure equity. Falling equity risk premia and higher earnings (thanks to the ability to pass through inflation) have helped to more than offset the impact of rising interest rates on asset values.

At a sector level, regulated assets and the renewable energy sector were the main performance contributors during the second quarter.

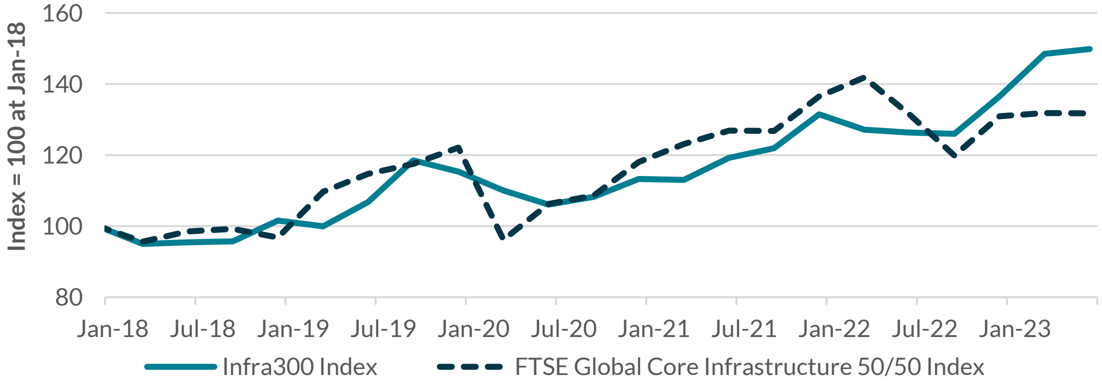
On a relative basis, Private infrastructure has outperformed Listed infrastructure over the past five years. We recommend for this asset class to evaluate performance on a long-term horizon as valuations tend to lag public markets and instruments tend to be less liquid.

24. Performance versus Listed Infrastructure



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

25. Performance Private versus Listed Infrastructure



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

* Global Private Infrastructure (equity): EDHEC Infra300 index, Global Listed Infrastructure (equity): FTSE Global Core Infrastructure 50/50 index. See also Appendix.

Private Infrastructure

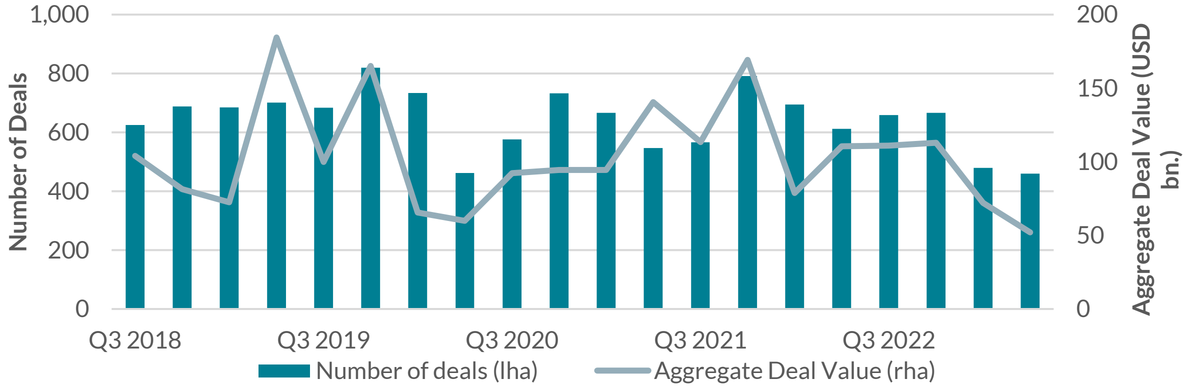
Current metrics: Deal activity and fundraising have slowed

After record levels of fundraising over 2022, there has been a significant slowdown in fundraising during the first half of 2023. Investors have been cautious about increasing their allocations to illiquid assets as they look to mitigate the risk of being overly exposed to private market assets, amidst broader market uncertainty. However, the outlook for fundraising over the coming years remains positive.

We have also seen a decline in deal activity during H1 2023, with the number of Private infrastructure deals and average deal size falling over the period.

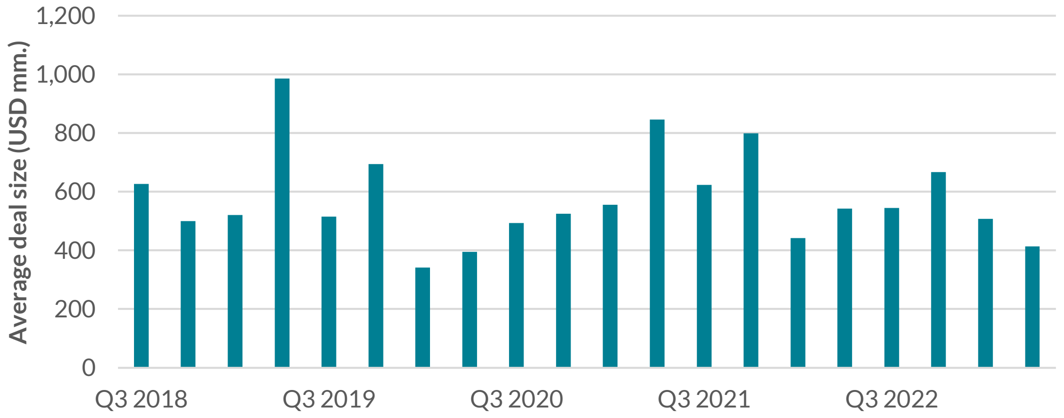
Like Private real estate, we expect that transaction activity in secondary Private infrastructure markets may pick up with sellers more willing and/or forced to transact at (lower) valuations to persuade buyers.

26. Private Infrastructure deal activity has slowed



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

27. Average individual deal size has declined over past quarters



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

Private Infrastructure

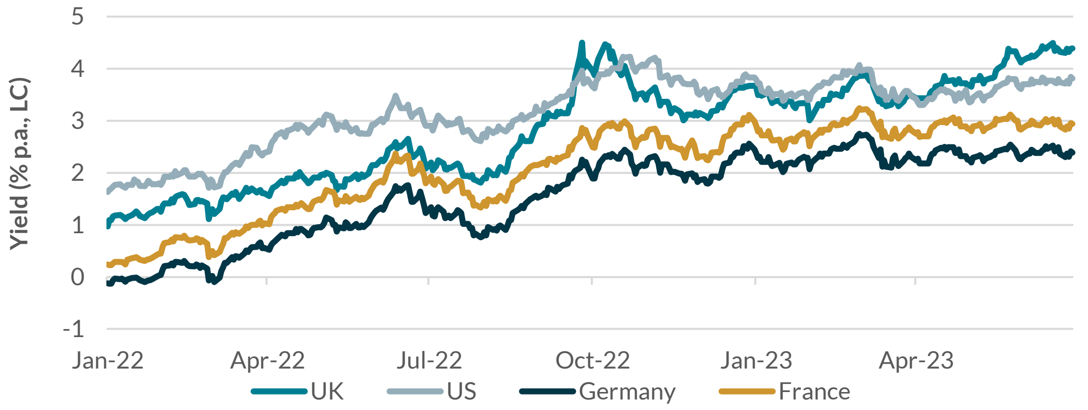
Outlook (6-12 months): Infrastructure expected to remain resilient

Higher interest rates continue to put pressure on asset values and keep infrastructure financing costs elevated. Commodity prices (energy and industrial metals) have continued to fall gradually from their peak in May 2022 on softer global growth. This generally had a positive impact on infrastructure input costs. Since this summer, oil prices have risen again, while industrial metal prices were stable.

The energy transition continues to act as a tailwind for the power & utilities and renewables sectors. Travel activity has continued to improve, however a push to reduce emissions and a greater focus on ESG introduce headwinds for high-emitting parts of the transportation sector. The growing popularity of e-commerce are driving the demand for greater digital infrastructure within telecom.

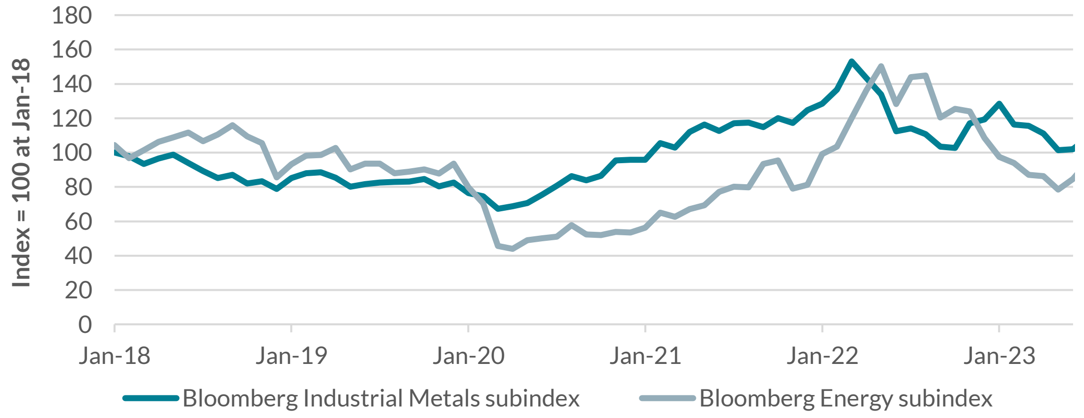
As this asset class benefits from inflation-hedging characteristics, is less exposed to the economic cycle, and has positive long-term trends, we have a moderately positive view.

28. Elevated interest rates continue to put pressure on asset values



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

29. Commodity prices have normalized, leading to lower input costs



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

Private Farmland

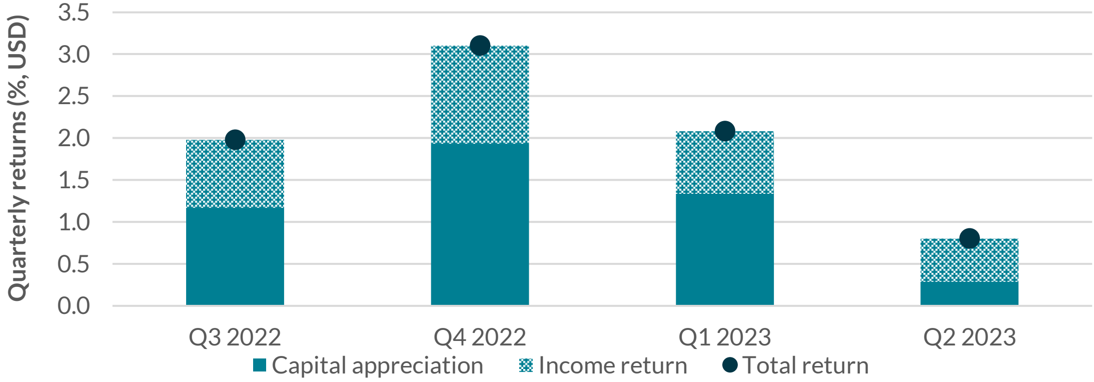
Performance Q2-’23: Performance remains moderately positive

Private Farmland (equity) returned +0.8% over the second quarter of 2023*. The moderation in returns during the second quarter of 2023 was largely due to a fall in the price of row crops (e.g., corn, soybeans and wheat).

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.

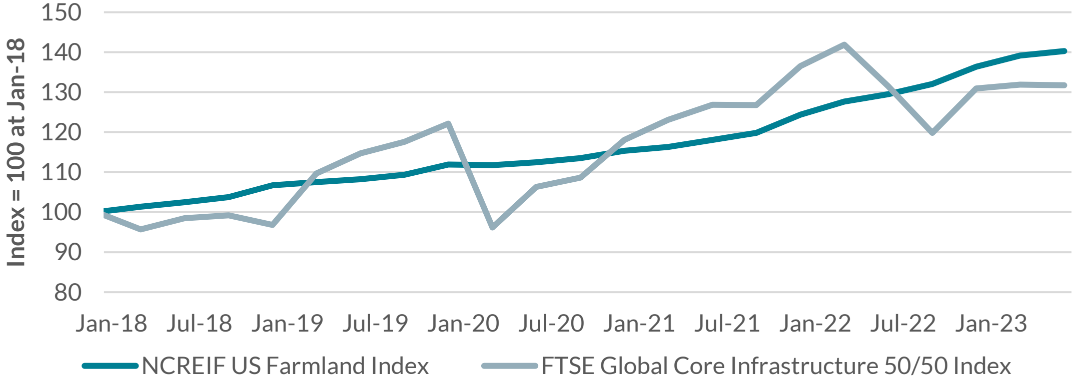
On a relative basis, Private Farmland has outperformed a comparable listed equity index (e.g., Listed infra) over the past five years. It is worth keeping in mind though that infrastructure investments tend to operate with greater leverage, which has an impact on overall returns. We recommend for this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

30. Private Farmland performance



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

31. 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

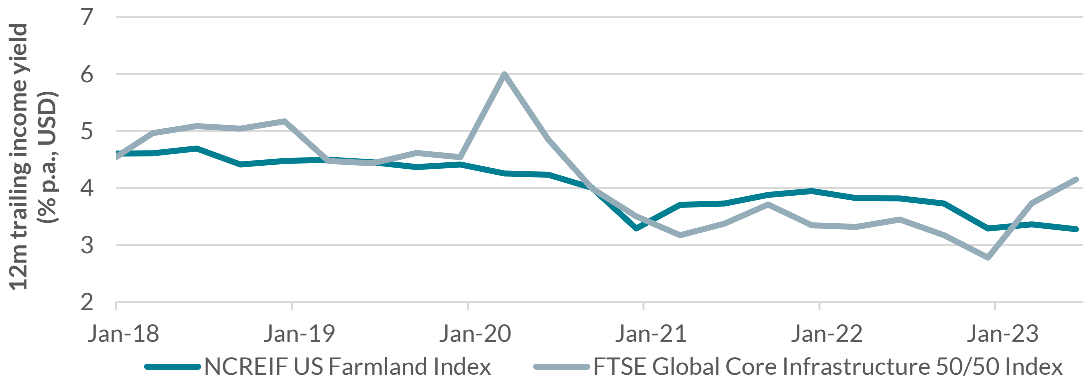
Current metrics: Yields are historically low, but remain stable

Food prices have fallen quite significantly during the first half of 2023, with corn and wheat prices experiencing particularly sharp declines. This fall in price has negatively impacted farmers' revenues.

We expect that food prices may continue to fall in the short to medium-term, as governments across the world realized (e.g., grain deliveries from Ukraine) that food is essential for domestic political stability. Thus, several governments have tried to increase supply of food and become more self-sufficient. Longer term, a growing world population requires a strong rise in global food production (anyway).

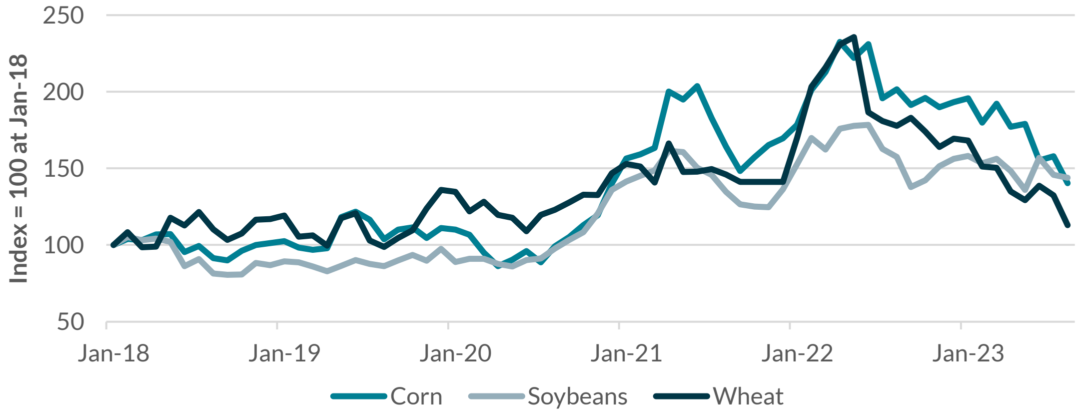
The (trailing) income yield on farmland has been trending downwards over the past few years due to the significant increase in farmland market values. It is currently below the global listed infrastructure yield.

32. Yield evolution



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

33. Agricultural crop prices



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

Private Farmland

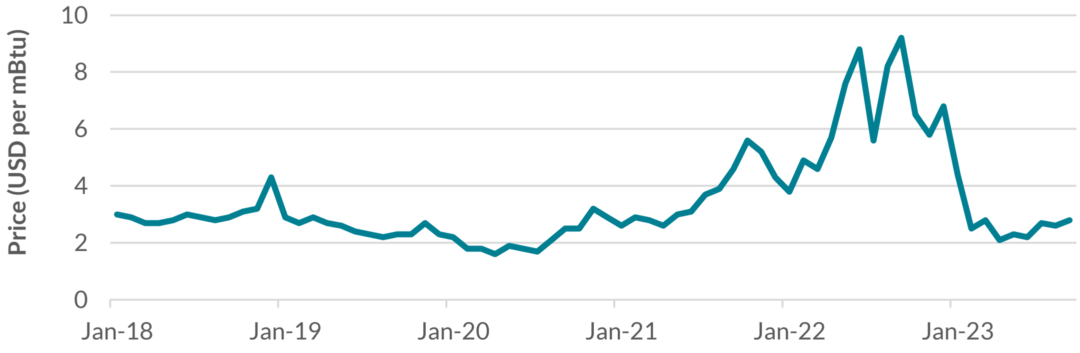
Outlook (6-12 months): Farmland expected to remain resilient

While relatively low leverage in farmland investments helps insulating these investments from rising interest rates, if these rates remain high (or would rise further), cost of financing any future investments will be high.

Natural gas prices, which had surged last year due to the war between Russia and Ukraine, have since come down significantly. Natural gas is a key input for fertiliser production, so the cost of fertiliser has in turn also fallen, helping to explain the slowdown in food price inflation. This fall in input costs has offset the impact of falling food/crop prices on farmers' profitability. Over the long term, the gap between supply and demand for agri-cultural output could lead to further upward pressure on farmland asset values.

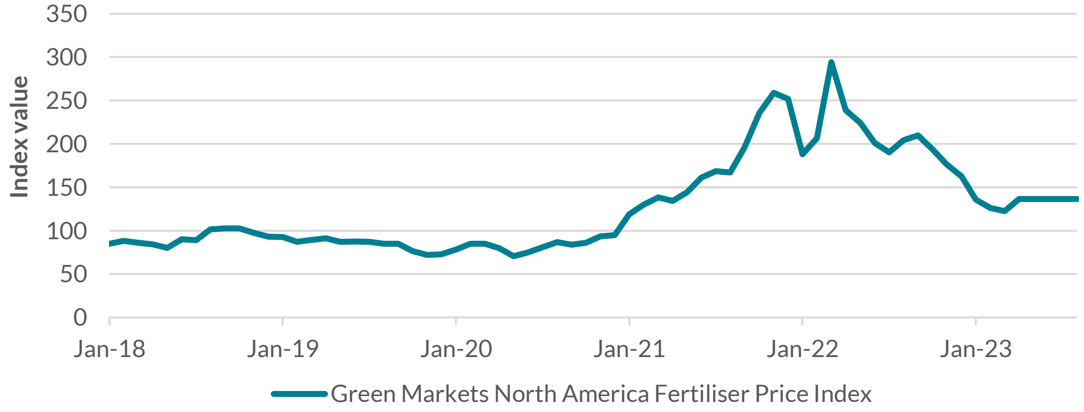
As this asset class benefits from inflation-hedging characteristics, is less exposed to the economic cycle, and has positive long-term trends, we have a moderately positive view.

34. US natural gas price



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

35. Fertilizer price index



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

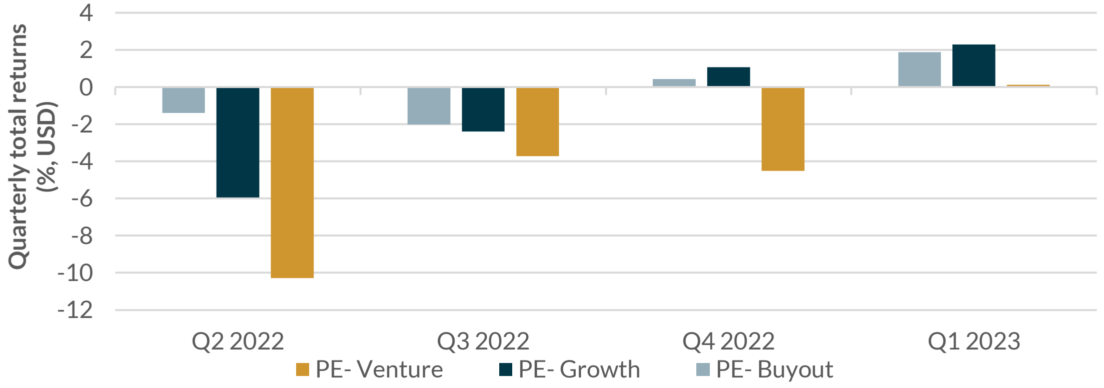
Private Equity

Performance Q1-'23: Buyouts have continued to outperform Venture capital

Private equity ('PE') delivered small positive Q1-'23 returns: Buyouts (+1.9%) and Growth equity (+2.3%)*. Venture capital delivered flat performance after a tough 2022. While the rebound in public equities year-to-date has eased some pressure on PE fund valuations, PE continues to face considerable headwinds from the uncertain macro-economic environment and higher interest rates, which make cost of borrowing and servicing floating-rate debt expensive.

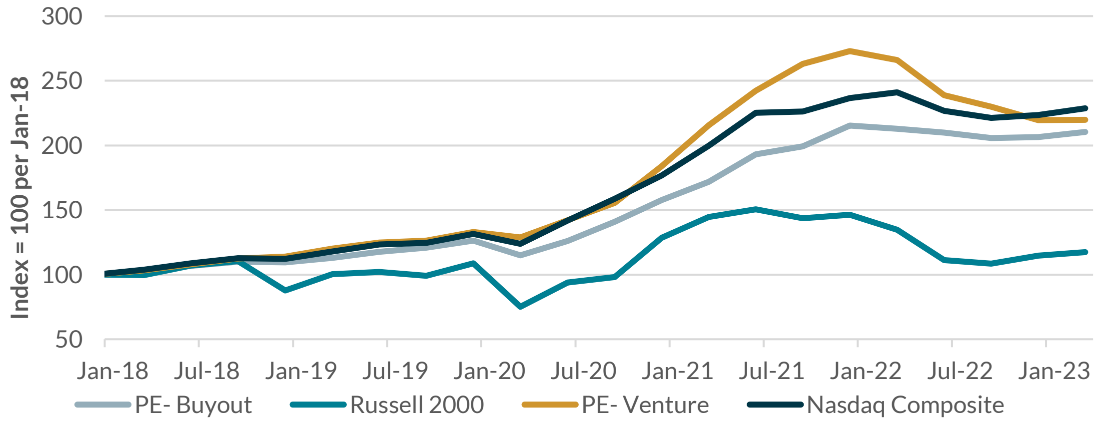
On a relative basis, Buyouts have strongly outperformed their listed equity comps (US small caps, Russell 2000 index) over the past five years. Performance for Venture capital was close to the Nasdaq Composite (US growth stocks). We recommend for this asset class to evaluate performance on a long-term 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 and Yields in USD unless stated otherwise.

* Please note: Performance for this asset class is typically released with a quarter delay..

Private Equity

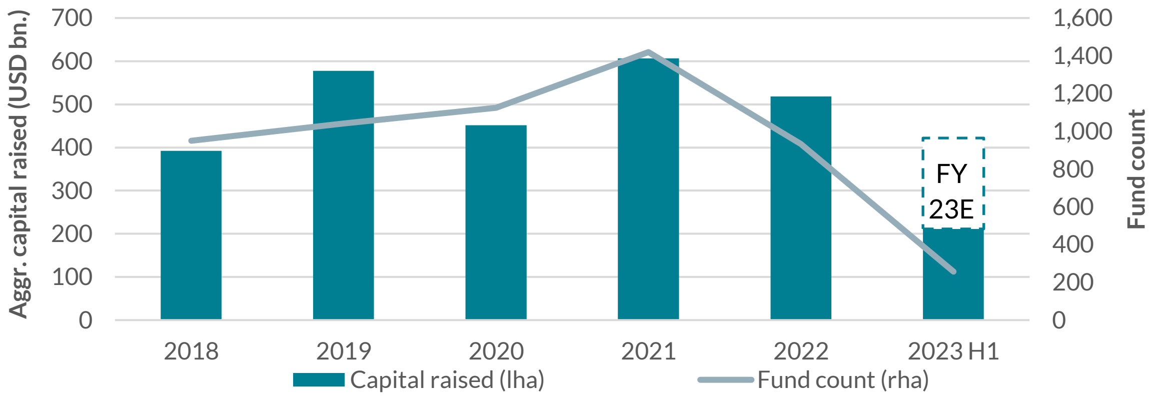
Current metrics: Fundraising activity is holding up, deal activity has slowed

Fundraising activity has continued to slow down over the past quarters. However, fundraising activity is still similar to pre-Covid levels and could outperform last year's fundraising in specific sectors (e.g., buyouts).

Deal activity has also slowed down (to Q2-'20 levels), as tighter financing conditions and investors turning more selective are headwinds to dealmaking. Nevertheless, PE firms have adjusted their deal strategies (e.g., including smaller deals and add-ons) to continue to deploy capital.

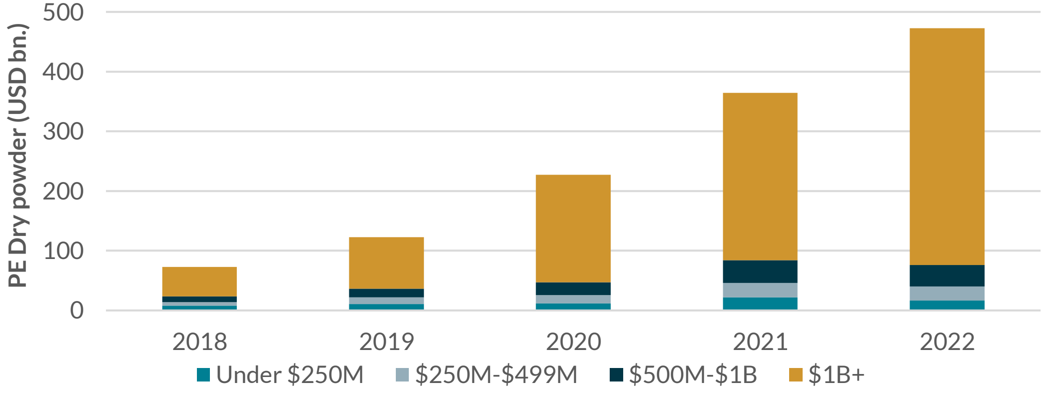
On the investment side, PE firms are sitting on near-record levels of dry powder (primarily targeted for large buyout funds) due to the slower deal activity. This is likely one of the reasons why smaller buyouts continue to outperform.

38. Fundraising activity has slowed, but still close to pre-Covid levels



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

39. Dry powder has increased further, particularly for large buyout funds



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

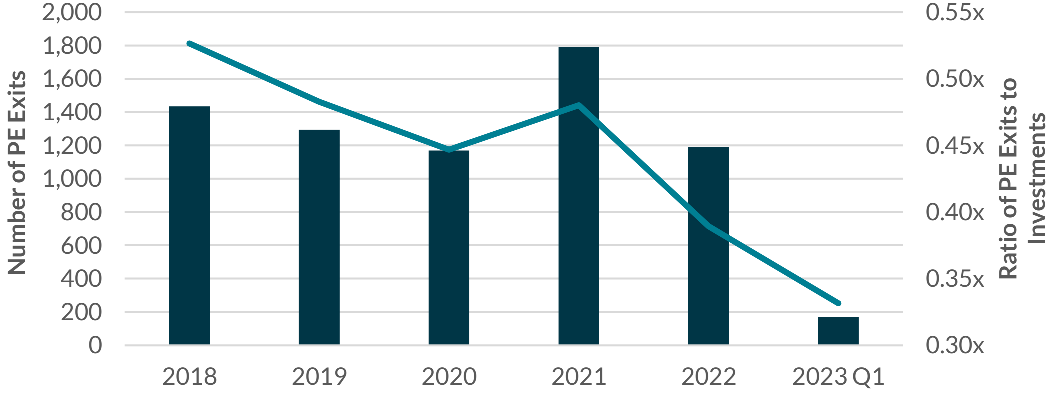
Private Equity

Outlook (6-12 months): Cautious given valuations and economic cycle

Meanwhile, exit activity also remains slow. Private equity's ratio of (number of) exits relative to investments has continued to fall to the lowest figure over the past 10 years (0.33x per Q1-23). Particularly in the US, PE firms have found it difficult to exit investments at compelling valuations due to higher financing costs, lower credit availability, and a stagnant IPO market. Consequently, many PE firms hold onto their investments longer, aiming to exit at higher multiples by growing portfolio companies' earnings or hoping that interest rates moderate. Typically, during these periods less capital is paid back to clients.

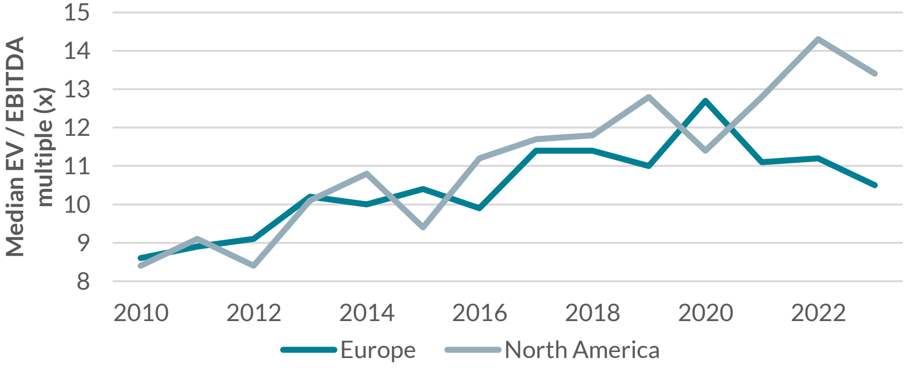
The current uncertain macro-economic environment with elevated PE valuations makes us cautious on Private Equity (particularly large buyout funds)*.

40. Exits-to-Investments ratio is near decade lows



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

41. Valuations in the US are just off historic highs



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

*Please note that committed capital is usually invested over a multi-year window and thus (if well-timed) these could still benefit if the investment environment and valuations for PE improve in future quarters.

Summary of Views

Summary of Views (6-12 months' horizon)

In the current environment, within Alternative Credit, we have a moderately positive view on (mezzanine) Structured Credit and Distressed Debt, while we are cautious on Corporate Direct Lending given the economic cycle. Within Real Assets, we like the inflation-hedging characteristics of Private Infrastructure and Farmland but expect that Private Real Estate may continue to suffer from downward valuation revisions. Similarly, the current macro-economic environment, combined with elevated valuations, makes us cautious on Private Equity (particularly large buyout funds).

Table 1. Current views on Asset classes

Asset Class		Current View				
		- -	-	=	+	+ +
Alternative Credit	Corporate Direct Lending		✓			
	Structured Credit				✓	
	Distressed Debt				✓	
Real Assets	Private Real Estate (equity)		✓			
	Private Infrastructure (equity)				✓	
	Private Farmland (equity)				✓	
Private Equity	Private Equity		✓			

Source: Van Lanschot Kempen (Sept. 2023)

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Appendix

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.

Description of 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 $103bn.). 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).

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 fund indices are value-weighted and represent the performance of private open-ended pooled (regional) real estate funds, with a core or core-plus investment mandate, that are valued on a quarterly basis. Returns are reported net of all fees. Total market cap of selected indices is roughly $770bn.

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.

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

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