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INTRODUCTION

As alternative investments continue to be understood better and utilized more by wealth advisors, it's becoming more apparent that alternative investments no longer represent a fringe investment type. Yes, they are an alternative to stocks and bonds, as they should be, but they are no longer alternative to being accepted as a core piece of an investor's portfolio. The advice industry stakes its reputation on diversification. It's the foundation and hallmark of investing. Here we sit, and we're comfortable stating our case that the more diversified the portfolio, the better.

However, there is still much to do. Now that more advisors, and investors, are convinced that alternative investments strengthen their investment portfolios, more wealth advisors must become better prepared and more confident to demonstrate their understanding of how, what, and why about alts. Indeed, the big challenge now becomes teaching, training and educating, not just that alternative investments are an essential ingredient, but that each investment type, class, sub-class, and strategy are unique and must be fully understood. No two alts strategies are the same, just as no two fund strategies are the same. Better training, deeper understanding, advanced expertise, and overall alts proficiency is key to a successful alts experience.

The Blue Vault 2024 Alternative Investments Mid-Year Outlook and Select Sector Reports is a collaboration by some of the industry's brightest minds. The purpose of the Outlook is to provide wealth advisors with a review of where alternative investments sit at the mid-way point of 2024 and what to look for as we move forward through 2024. The Blue Vault Alts Educational Board, made up of 17 executives from 17 different wealth firms across the financial services industry, is responsible for the idea behind the 2024 Outlook. The Outlook consists of article content from 12 different industry firms on a variety of topics.

We hope you'll take the time to look through and review the content, as you prepare your practice for what promises to be a riveting fall season and year-end. With so much economic activity and variations of data trends, so many different opinions, and so many options to consider as we adjust to market abnormalities and trends, we hope the Alts Mid-Year Outlook will help you simplify the complex. Special thanks to alts industry executives Dr. Randy Anderson, Apollo, and Josh Hoffman, Bluerock for their leadership role in making the Outlook take shape.

Stacy H. Chitty
Managing Partner

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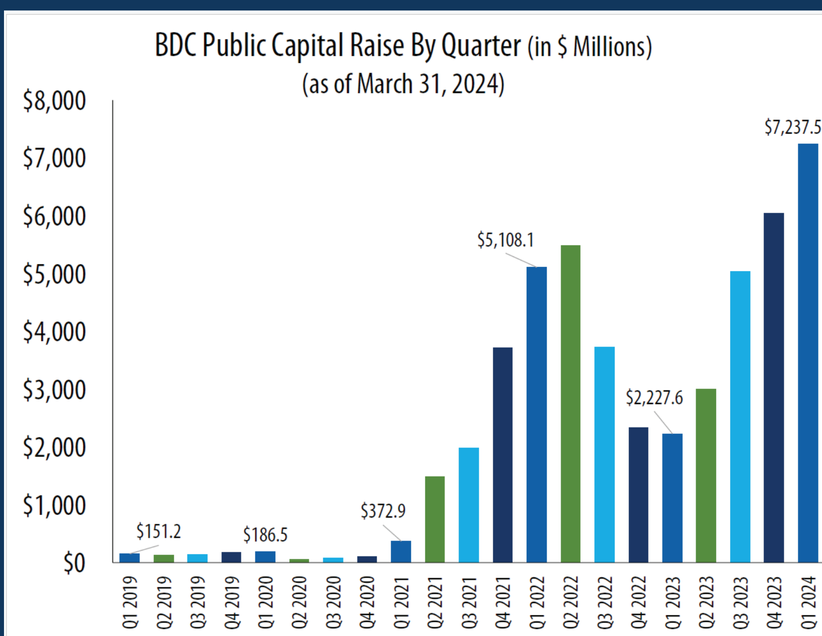
Nontraded BDC Industry Boom Shows No Sign of Slowing Down in 2024

Johnathan Rickman | Blue Vault

The quizzical combination of higher interest rates and enduring market optimism is driving a post-pandemic boom in nontraded business development companies (BDC) that shows no sign of slowing down anytime soon.

The launch of Blackstone Private Credit Fund and Blue Owl Credit Income Corp. in 2021 is often cited as the catalyst for the upsurge, which saw the industry raise total public capital of $1.485 billion in Q2 2021 and generate more than $1 billion in every subsequent quarter.



In fact, the nontraded BDC industry has raised over $1 billion in total public capital over 12 consecutive quarters, coming in at $7.237 billion in the first quarter of 2024. Second quarter results are expected to follow suit.

The nontraded BDC industry has also raised more than $1 billion through private offerings in 11 of the last 13 quarters, generating $1.840 billion in the first quarter of 2024, up from $1.478 billion in Q4 2023.

Those results helped generate a median industry return of 11.24% last year, prompting new market entrants that continue to feed the industry's growth. Last year saw the launch of six new nontraded BDCs, and five debt-focused BDCs have announced new public offerings so far this year.[1] Those and other factors, including a resolute market capable of rebounding from a one-day historical low in early August[2], are helping to grow BDCs into an alts industry powerhouse.

BDC Mechanics

BDCs are SEC-registered investment companies that are designed to boost the economy while generating a steady stream of income for both retail and accredited investors. They make loans/provide credit facilities to small, developing, and financially troubled private companies. BDCs pool money from multiple investors and invest that money in business debt and equity. They must also provide subject matter expertise to the firms they invest in.

Their streamlined underwriting process makes them competitive with traditional banks as they offer private companies a one-stop credit solution versus having to get loans from multiple banks. BDCs are typically taxed as registered investment companies and aren't regulated in the same manner as banks. So, when the banking sector experiences stress, as it has in recent years, BDCs create more opportunities for private companies in need of financing. This creates risk for the BDC investor but also potentially greater rewards.

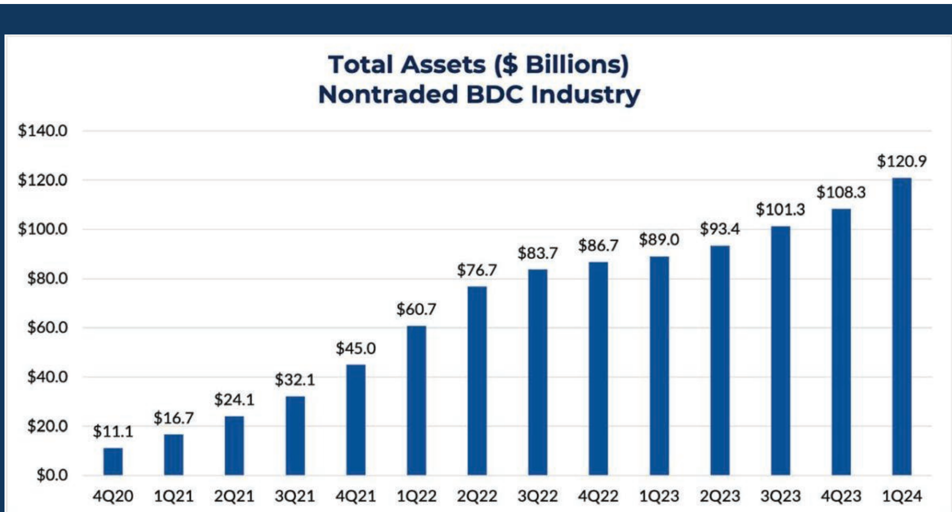
As most BDCs are debt- and credit-focused, high interest rates feed into BDCs' competitiveness and make them attractive. This in turn attracts investment managers to create more funds. The addition of new funds on top of an already strong BDC market is fueling the industry surge, resulting in impressive distributions to shareholders.

"The resurgence of the nontraded BDC industry over the past couple years is remarkable. Public capital raise increased from its low point in the second quarter of 2020 of $55 million up to over $7 billion in the first quarter of 2024, proving the industry isn't dead. The rise in interest rates really helped push the industry to where it is today in terms of strong returns and strong distribution rates, which in turn is attracting new sponsors and funds to the space, further fueling its growth."

Luke Schmidt, Vice President, Research, Blue Vault

Nontraded BDC Q1 Highlights

The nontraded BDC industry now has $120.9 billion in assets under management across 23 funds. That's up from $108.3 billion at the end of 2023. As of March 31, 2024, the industry has generated an average distribution yield of 8.52%.



The industry generated a Q1 median return of 2.57%, with an average return of 2.18%. (Those results only include funds that were in operation for the full three-month period.) That compares to Morningstar LSTA Leveraged Loan Index and ICE BofA US High Yield Total Return Index results of 1.94% and 1.51%, respectively.

Blue Vault members may log in to access our full Q1 2024 Nontraded BDC Industry Review in our Research Portal. If you are not a member, please visit our Membership page.

References

[1] 2Q 2024 Closed-End Fund & BDC Review and Outlook, Closed-End Funds Advisors
[2] https://www.morningstar.com/news/market-watch/2024081244/the-stock-market-suffers-another-august-scare-here-are-the-lessons-for-investors

ASHFORD
SECURITIES

Q2 2024 TRAVEL & LODGING UPDATE

ASHFORD

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Summer Travel Is Booming

Our insatiable appetite for travel has this summer season shaping up to be the busiest one ever in the U.S. The Transportation Security Administration has broken a new record after screening the most people ever in a single day. On Sunday, July 7, the agency processed 3,013,413 travelers at U.S. airports – which works out to be nearly 35 passengers every second! The summer travel frenzy is underway with eight of the ten busiest air travel days in the history of the TSA happening between May 23 and July 7 of this year.[1]

Some of the reasons why this year's travel levels are so unprecedented include cheaper airfares that are looking more palatable than they did last year and younger adults fueling the summer's demand for travel by taking more vacations. Whether they're hopping on cruises or sightseeing in Europe, many Americans are hungry for international travel this year with a stronger dollar driving them to some of the world's top tourist destinations, including Japan.[2] Boosted by economic stability and pent-up demand, business travel spending by U.S. companies may finally exceed pre-pandemic levels by the end of the year due to higher prices f rom both airlines and hotels and an increase in trips.[3]

TOP 5
Busiest Travel Days in TSA History[1]

Date	Total Passenger Volume
1. 07/07/2024	**3,013,413**
2. 05/24/2024	**2,951,859**
3. 06/14/2024	**2,929,324**
4. 06/09/2024	**2,915,830**
5. 11/26/2023	**2,908,785**

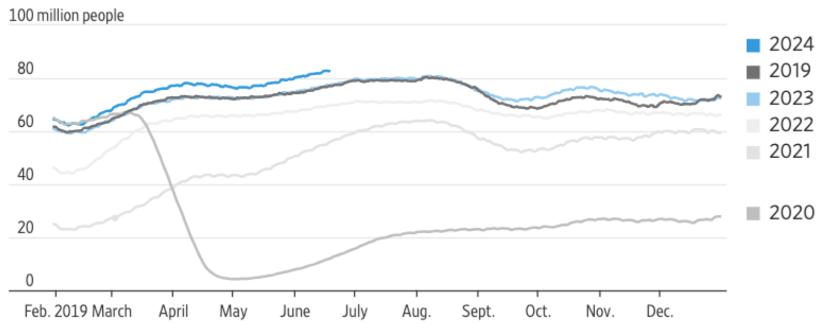
In the first four months of 2019, the top U.S. gateway markets welcomed more than 8.3 million international visitors. Five years later, these same markets have now achieved 89% of their 2019 levels. The loosening of travel restrictions globally, along with China lifting its group travel ban in August 2023, has greatly contributed to the increase in international travel to the U.S., notably in its top gateway markets. As a result, international travel is projected to continue its upward trajectory, reaching 2019 levels and fully recovering by the end of the following year. Look for the recovery of international travelers in the top U.S. gateway markets to be a positive signal for hotel investors to capitalize on the international recognition, diversity in demand, and robust tourism of these markets over the long term.[4]

1) TSA.gov, TSA checkpoint travel numbers, as of July 8, 2024. 2) Wall Street Journal, "U.S. Airports Keep Setting New Daily Passenger Records. Here's Why." June 28, 2024. Note: one-month rolling sum. 3) Skift Research, "More Trips, Higher Prices: Business Travel Spending May Finally Top 2019 Levels", July 17, 2024. 4) Source: JLL Research, ITA; Notes: Data as of month-end April 2024. Top gateway markets include New York, Washington, D.C., Chicago, San Francisco, Los Angeles, and Boston. 5) Skift Research, "Will Hotel Pricing Strength Continue into 2024?", January 2024. Source: U.S. Bureau of Labor Statistics, STR, Skift research and analysis. 6) CoStar, "U.S. hotel construction activity highest since February", July 18, 2024. 7) Hotel Investment Today, "Don't expect material supply growth till 2029/2030: JLL", July 1, 2024. 8) Source: JLL Research, RLB Construction Cost Report, January 2024. 9) Source: NCREIF, MSCI/RCA, Cushman & Wakefield, Midyear 2023.

With hotel occupancy levels having not fully recovered yet to pre-Covid levels, industry experts expect rising demand to fuel hotel price hikes, aiding further RevPAR growth for the remainder of the year. Supply growth continues to be more constrained than demand growth and we expect this to further aid hotel pricing power.[5]

Travel is booming again...[2]

Travelers through U.S. airports



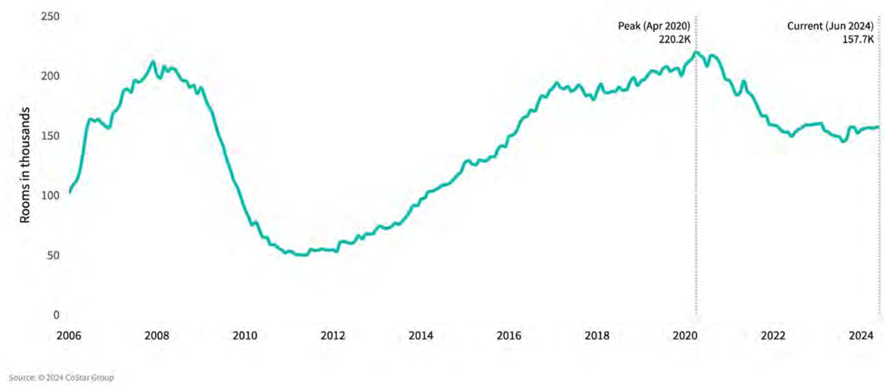
Note: One-month rolling sum

Sources: Cirium Diio Mi (schedules), Transportation Security Administration (passengers)

Hotel supply has been held back by high interest rates in a tough financing environment and by high construction costs. According to JLL, slow supply growth of approximately 2.4% over the next five years is poised to drive up average daily rates (ADR) well into the next decade presenting a significant opportunity in the hospitality sector.[7] In a landscape where barriers to new development are high, existing hotels could become even more valuable, and savvy investors who can acquire existing assets stand to benefit.

U.S. hotel rooms under construction[6]

Rooms in thousands, January 2006 - June 2024



The spread between acquisition and development costs of U.S. urban full-service hotels may present investors with a discount on replacement costs and an opportunity to invest in these urban markets.[8] With roughly $52 billion in hotel debt maturities in 2024, we expect to see motivated sellers and a compelling acquisition landscape this year.[9] The convergence of loan maturities and renovation needs, combined with limited supply growth, has the hotel industry potentially poised for growth. For those managing portfolios, particularly in real estate and alternative investments, this trend can't be ignored and investors who are under-allocated to the sector may be missing out.

1) TSA.gov, TSA checkpoint travel numbers, as of July 8, 2024. 2) Wall Street Journal, "U.S. Airports Keep Setting New Daily Passenger Records. Here's Why." June 28, 2024. Note: one-month rolling sum. 3) Skift Research, "More Trips, Higher Prices: Business Travel Spending May Finally Top 2019 Levels", July 17, 2024. 4) Source: JLL Research, ITA; Notes: Data as of month-end April 2024. Top gateway markets include New York, Washington, D.C., Chicago, San Francisco, Los Angeles, and Boston. 5) Skift Research, "Will Hotel Pricing Strength Continue into 2024?", January 2024. Source: U.S. Bureau of Labor Statistics, STR, Skift research and analysis. 6) CoStar, "U.S. hotel construction activity highest since February", July 18, 2024. 7) Hotel Investment Today, "Don't expect material supply growth till 2029/2030: JLL", July 1, 2024. 8) Source: JLL Research, RLB Construction Cost Report, January 2024. 9) Source: NCREIF, MSCI/RCA, Cushman & Wakefield, Midyear 2023.

The forecasts provided were not produced by Ashford Securities or any of its affiliates. There can be no assurance that similar performance will be experienced or that the forecasts will be accurate. ***Ashford Securities LLC (Member FINRA/SIPC) is an affiliate of Ashford Inc.***

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Bluerock Market Compass

2024 Mid-Year Outlook

Bluerock's 22-year commitment to delivering leading alternatives solutions to private wealth investors

"Bluerock has been an educational partner to financial professionals in effectively utilizing alternative investments in client portfolios for over 20 years.

As the alternatives landscape evolves, Bluerock is committed to serving as a leader in delivering compelling next-generation alternative investment solutions to individual investors."

Ramin Kamfar
CEO and Founder, Bluerock

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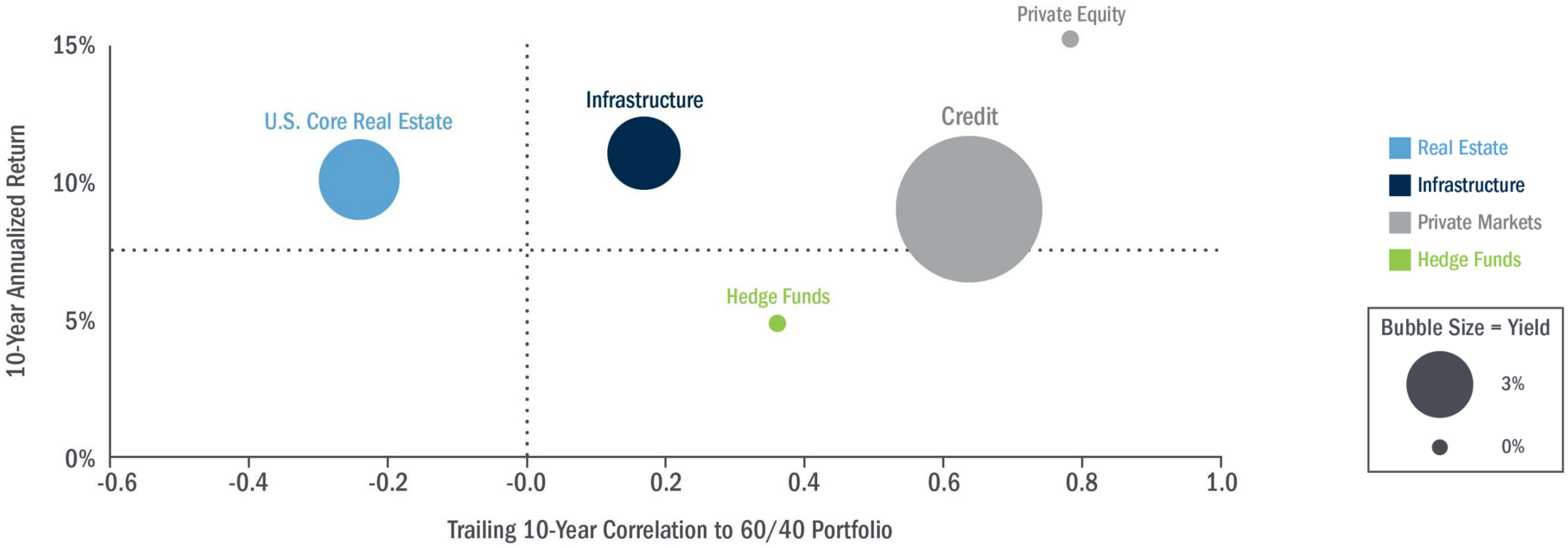
Asset allocation case for alternatives remains strong

- Alternatives have proven useful sources of non-correlated yield while generating equity-like returns

Correlations, Returns, and Yields
10-Year Correlations and 10-Year Annualized Total Returns, quarterly 2014-2023



Source: JP Morgan, Guide to Alternatives, 5.31.2024

Underlying Indexes for selected asset classes: Cliffwater, HFRI, MSCI, NCREIF, FactSet, J.P. Morgan Asset Management. Correlations are based on quarterly returns over the past 10 years through 2023. A 60/ 40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. 10-year annualized returns are calculated from 2014-2023. Data are based on availability as of May 31, 2024

Macroeconomic Outlook

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Executive Summary

Macroeconomic Outlook

- Bluerock's 2024 full year outlook of declining inflation and moderating economic growth appears to be taking shape
- The Federal Reserve recently recognized its dual mandate and will strive to strike a balance between its 2% annual inflation target and unemployment risks[1]
- A moderating economy is providing cover for the Federal Funds rate to be cut faster than previously expected, which is likely to be disproportionately beneficial to private real estate
- The macroeconomic backdrop will create opportunities in alternative credit and private real estate sectors with strong fundamentals

[1] Source: Federalreserve.gov

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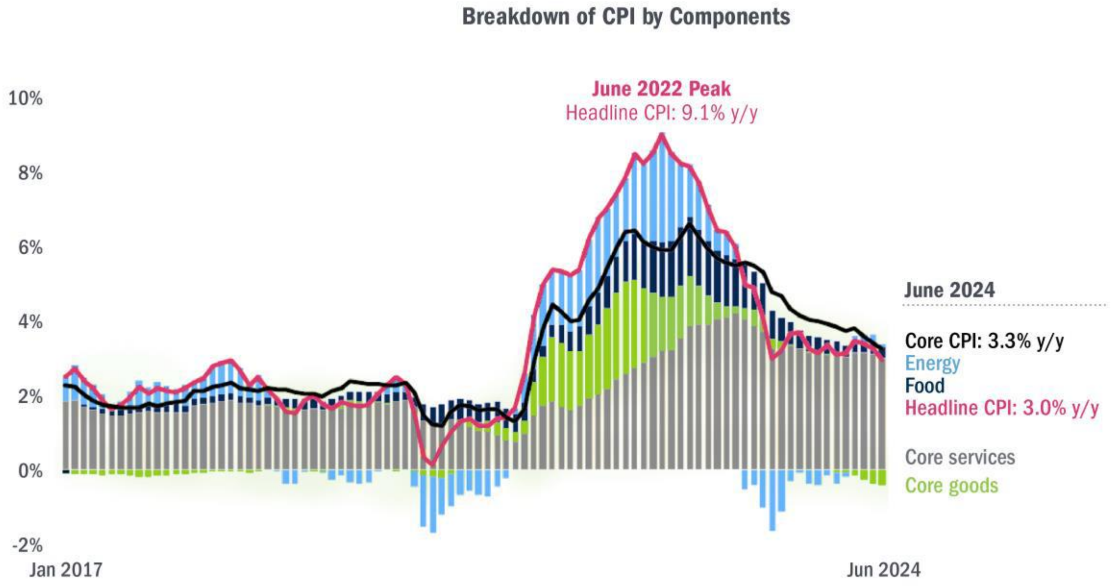
Inflation has moderated substantially and short-term rates likely to decline

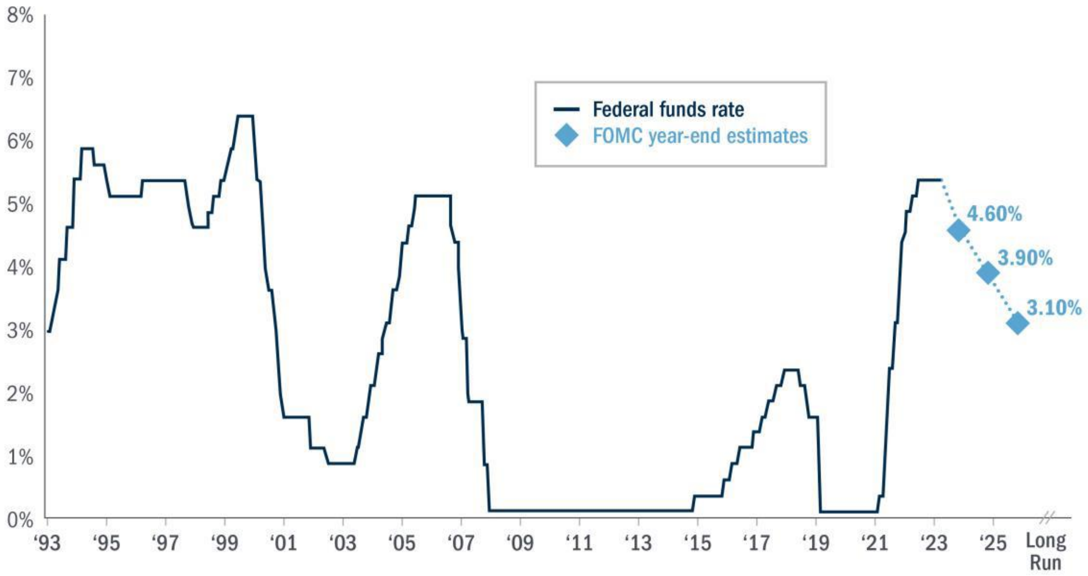
Inflation has moderated but remains above the Fed's 2% target

- Headline CPI is down substantially from its peak in June 2022
- Core services inflation remains sticky, driving headline CPI to remain stubbornly above target



Short-term rates set to decline in Q3 2024 and thereafter

- We expect rates to be cut to 4.50%-4.75% over the second half of the year
- The softer economic data will likely keep 10-Year Treasury rates below 4% through year-end

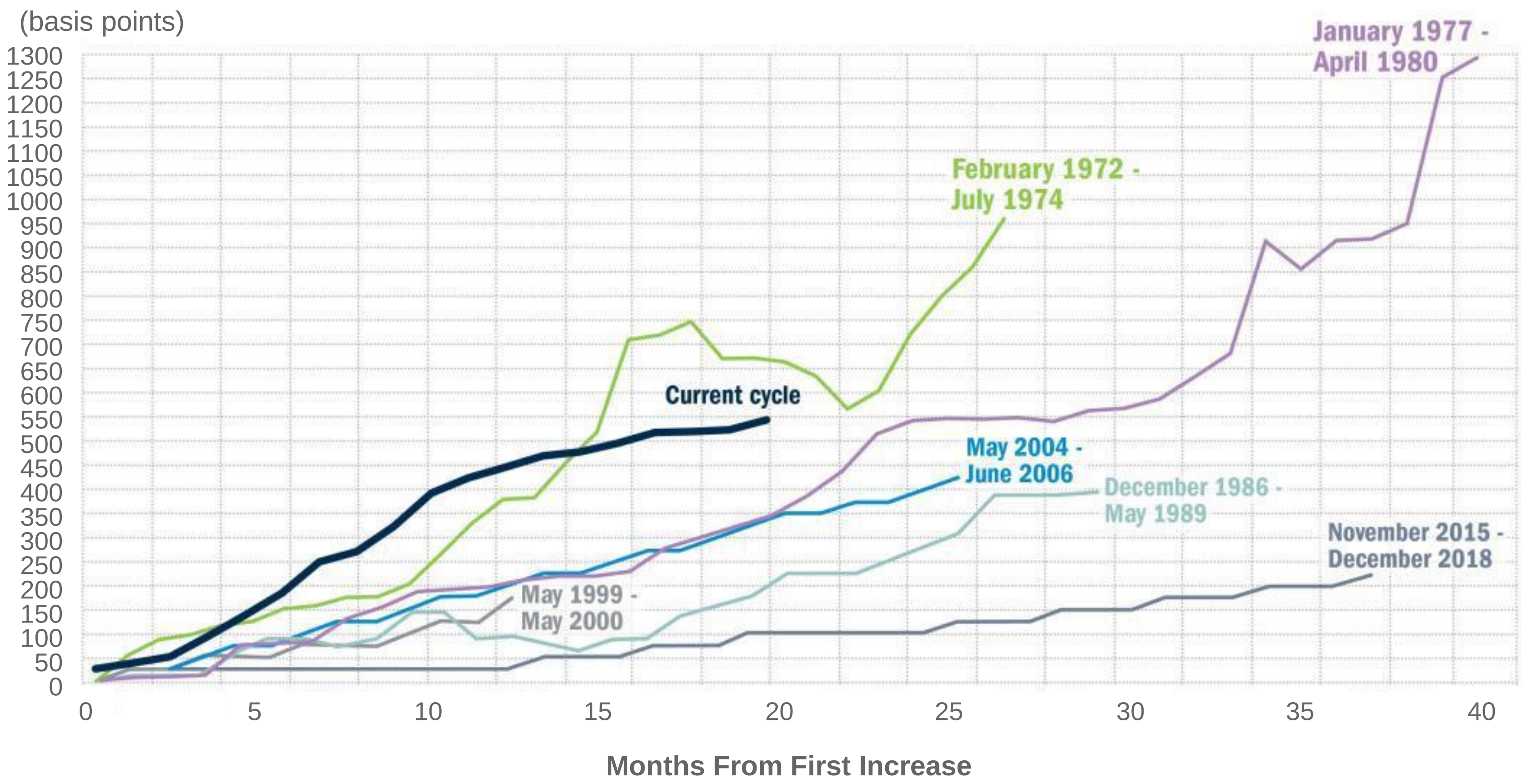


Sources: MUFG, June 2024. JP Morgan Guide to the Markets, 3.31.2024

Economy showing signs of softening on the heels of an aggressive Fed tightening cycle

- The economy is showing initial signs of softening following the most aggressive start to a Fed tightening cycle of the last 40 years
- Most other significant historical rate rise periods have resulted in recession

United States: Cumulative Change in Federal Funds Rate Since First Hike



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Source: Haver Analytics, Rosenburg Research, Federal Reserve Economic Data Effective Rates for 1970s periods

Capital Markets Overview: Equities

Richly valued equities are beginning to mean revert

Equities

- Expensive equities have begun to mean revert
- The index has been generally driven higher by the top 10 stocks
- S&P 500 is overvalued by many measures and returns following high P/E ratios have historically been subpar

S&P 500 Index: Forward P/E Ratio

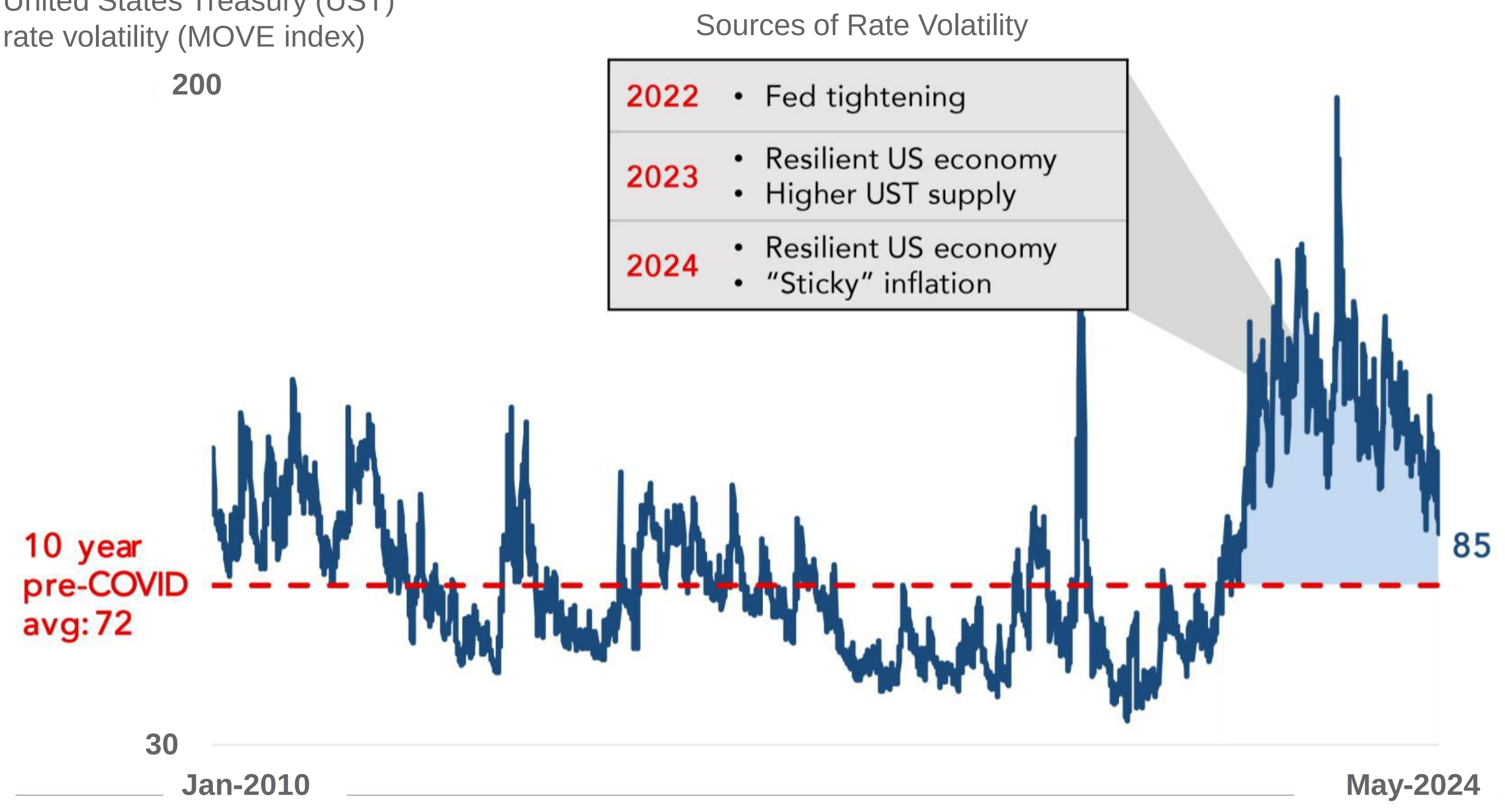
Capital Markets Overview: Fixed Income

Short-term rates set to decline in Q3 2024 and thereafter

Fixed Income

- The lower long bond rate, recent Fed messaging, and futures markets portend lower short-term rates in the next 3-12 months, perhaps as low as 3%
- We see the bulk of Fed rate cuts occurring in 2025, with potential cuts of 50-75 basis points in H2 2024
- Despite its recent large drop, the 10-year Treasury Rate has become more volatile as shown by the MOVE index, hampering its role in the traditional 60/40 portfolio.

United States Treasury (UST) rate volatility (MOVE index)



Source: MUFG Inflection Points, May 2024

Capital Markets Overview: Real Estate and Credit

Potentially attractive entry points in real estate; opportunities in alternative credit

Real Estate

- We see potentially attractive entry points in many commercial real estate sectors with the exception of office
- Commercial real estate pricing is likely to mean revert and we see signs of stabilization in valuations
- Institutional real estate has historically outperformed its long-term average in the years following periods of decline

Alternative Credit

- We see tremendous opportunities in alternative credit, including real estate credit and collateralized loan obligations (CLOs)
- Overleveraged real estate transactions from peak pricing may bring opportunities for unconventional financings, including recapitalizations and mezzanine debt
- We are optimistic about CLOs which continue to offer high yield in tandem with lower historical impairment rates than other credit instruments

[1] NCREIF, Morningstar Direct

Private Real Estate Outlook

Executive Summary

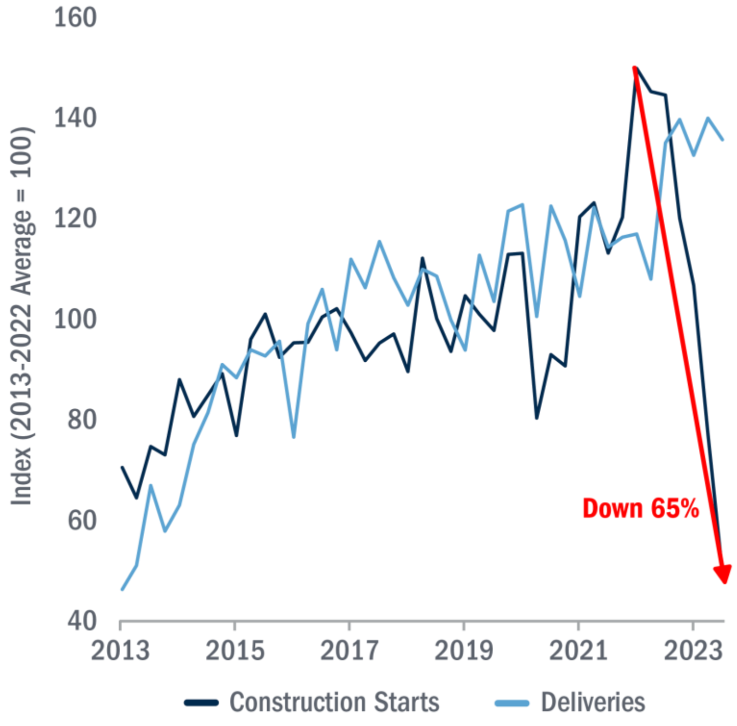
Private Real Estate Outlook

- Strong fundamentals powering an inflection point in private real estate returns
- Conditions may present an attractive entry point as post-decline environments have historically generated outsized performance
- Sector and market selection will be key in current market environment
- Tax-advantaged investments will continue to be desirable given significant uncertainty in Federal and state income and capital gains tax rates

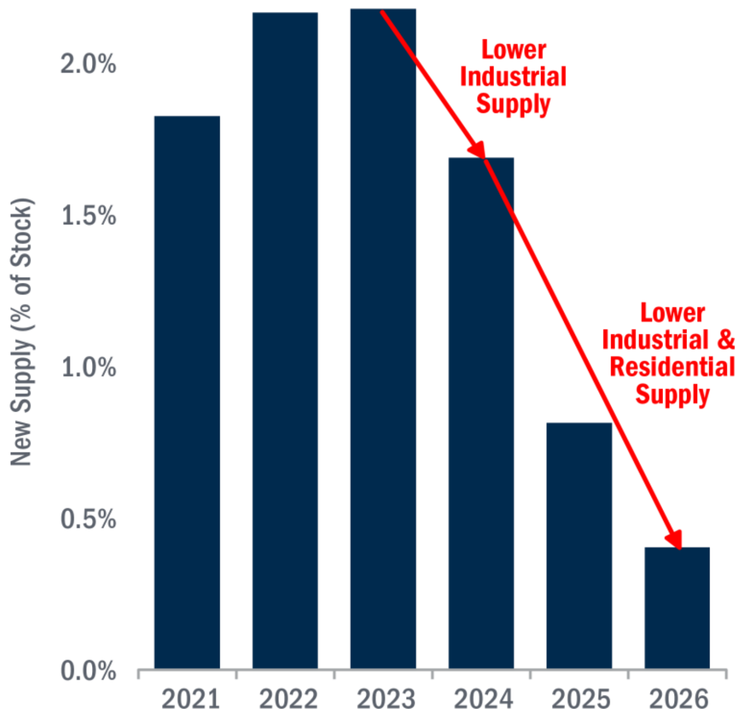
Strong supply/demand fundamentals setting up a potential "goldilocks" scenario for private real estate

- Substantial declines in real estate starts will result in very low new construction deliveries
- With limited supply and continued strong demand in many sectors, we are likely to see a rebound in valuations

Construction Starts



Real Estate Deliveries



Note: Forecasts are based on assumptions, estimates, views and hypothetical models or analysis, which might prove inaccurate or incorrect. Real Estate Deliveries is weighted average of Industrial (35%), Residential (30%), Office (20%), and Retail (15%)
Source: DWS RREEF, CoStar, CBRE-EA; Data as of September 2023

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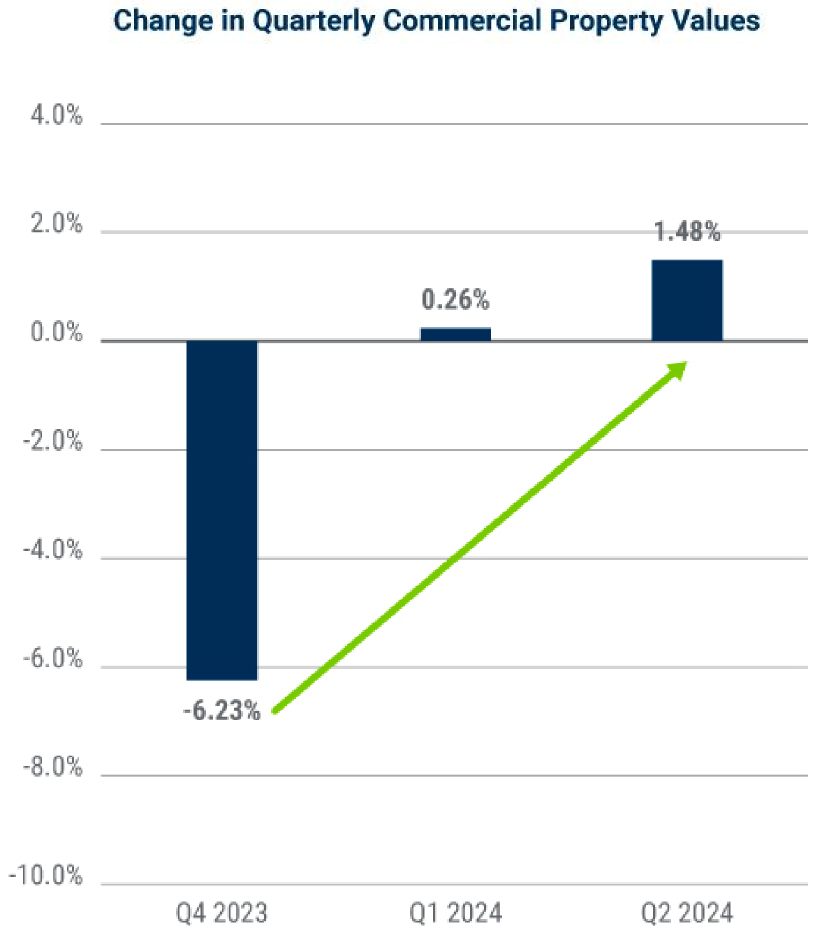
Private real estate showing signs of recovery

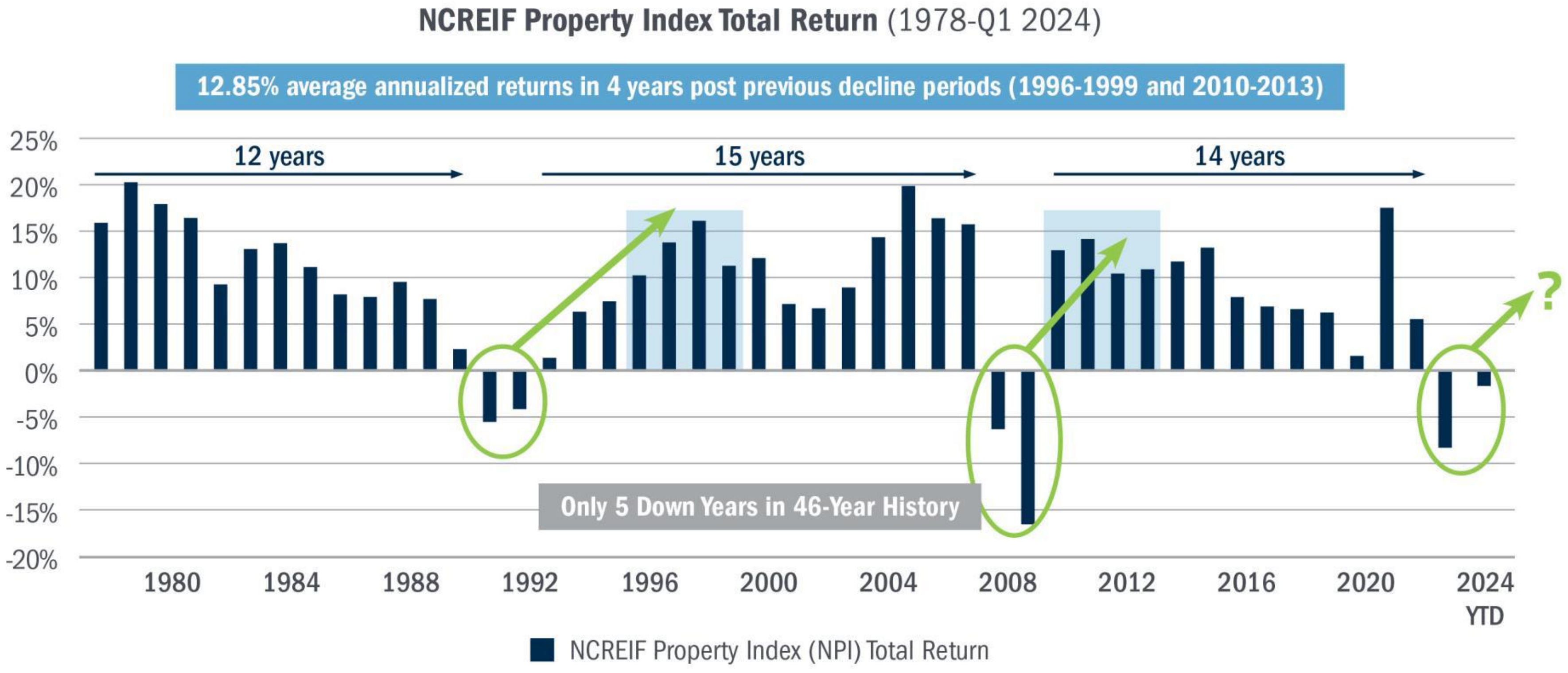
- Overall commercial real estate pricing is up nearly 2% in 2024
- Recent positive pricing trends an indicator that commercial real estate may be at an inflection point and a rebound is imminent
- In combination with strong supply/demand fundamentals, current pricing may provide an attractive entry point



Sources: Green Street CPPI, July 2024

Post-decline environments typically generate strong private real estate returns

- The years following previous institutional real estate declines generated multiple years of above-average returns
- We see a similar scenario setting up after this decline, driven by cap rate stabilization and NOI growth

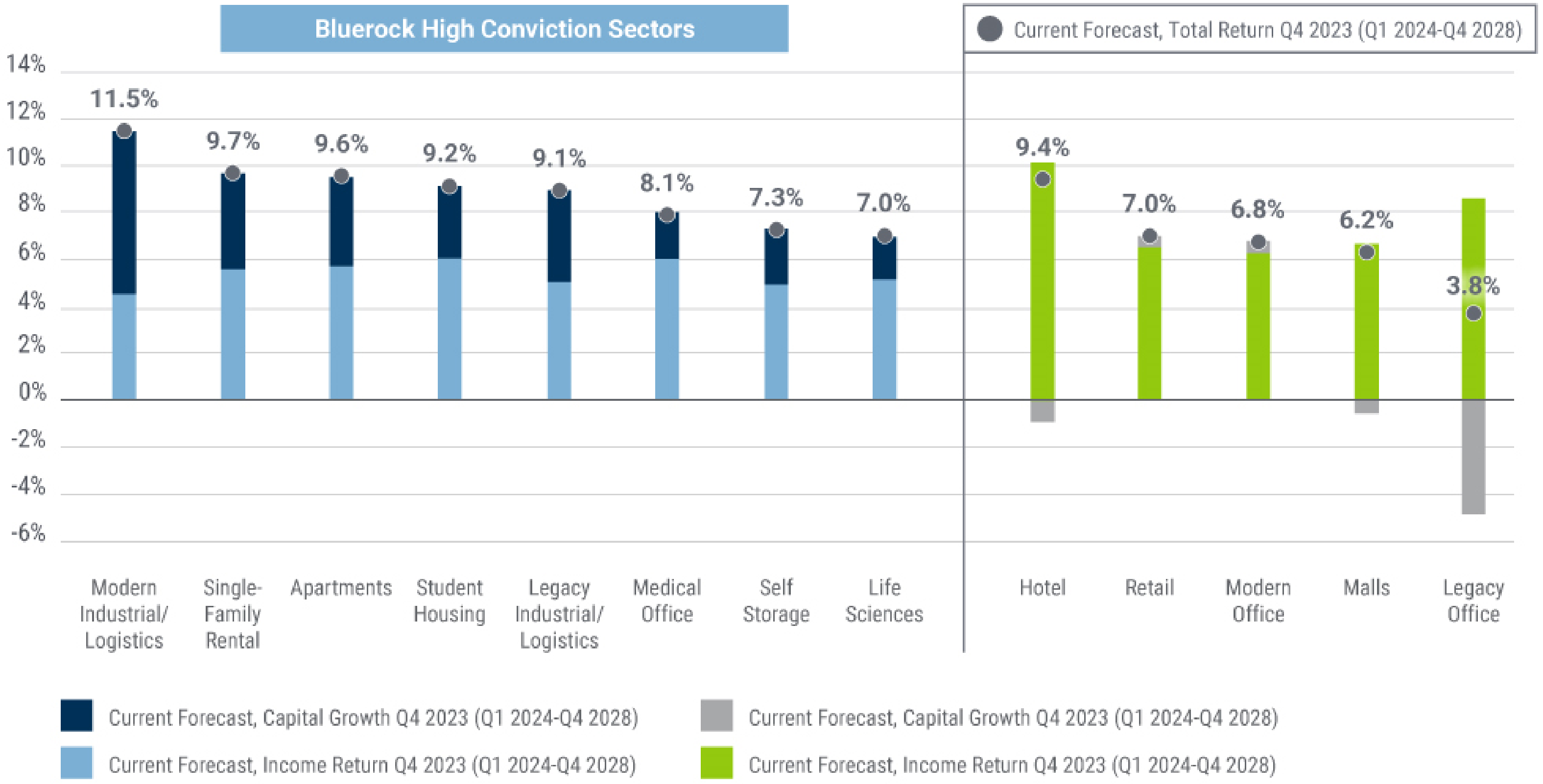


Source: NCREIF, Morningstar Direct

Sector and market selection will be critical to generating strong performance

- Dispersion in forecasted real estate returns driven by differences in fundamentals by sector and market
- Industrial and residential offer the highest projected returns, driven by strong supply/demand dynamics
- Market selection also a differentiator for real estate returns, with continued strong population and employment growth in the Sunbelt likely to boost real estate values

5-Year Forecasted Returns by Real Estate Sector (2024-2028)



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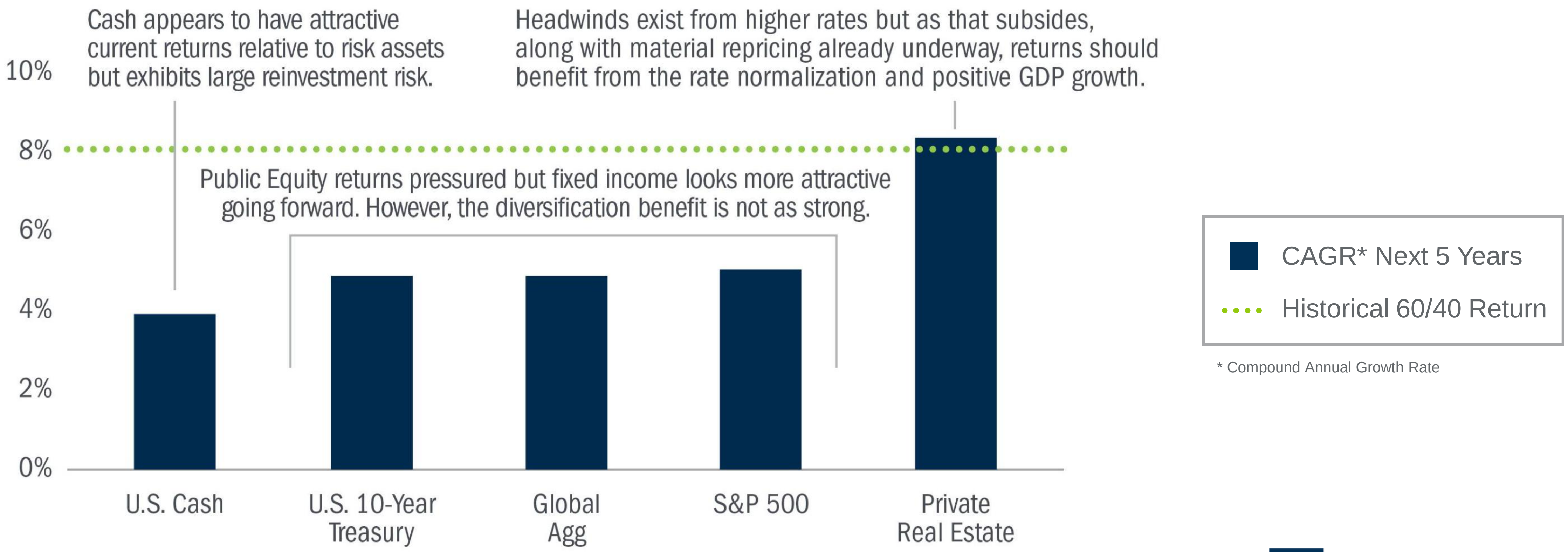
Potentially strong relative value in real estate vs. equities and fixed income

- Private real estate forecasted to outperform stocks and bonds over the next 5 years

5-Year Expected Returns by Asset Class (%)



* Compound Annual Growth Rate

Source: KKR Private Wealth Investment Playbook, Q2 2024

Past performance is no guaranty of future return. There is no assurance of the success of any investment strategy.

Industrial Real Estate Outlook

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Executive Summary

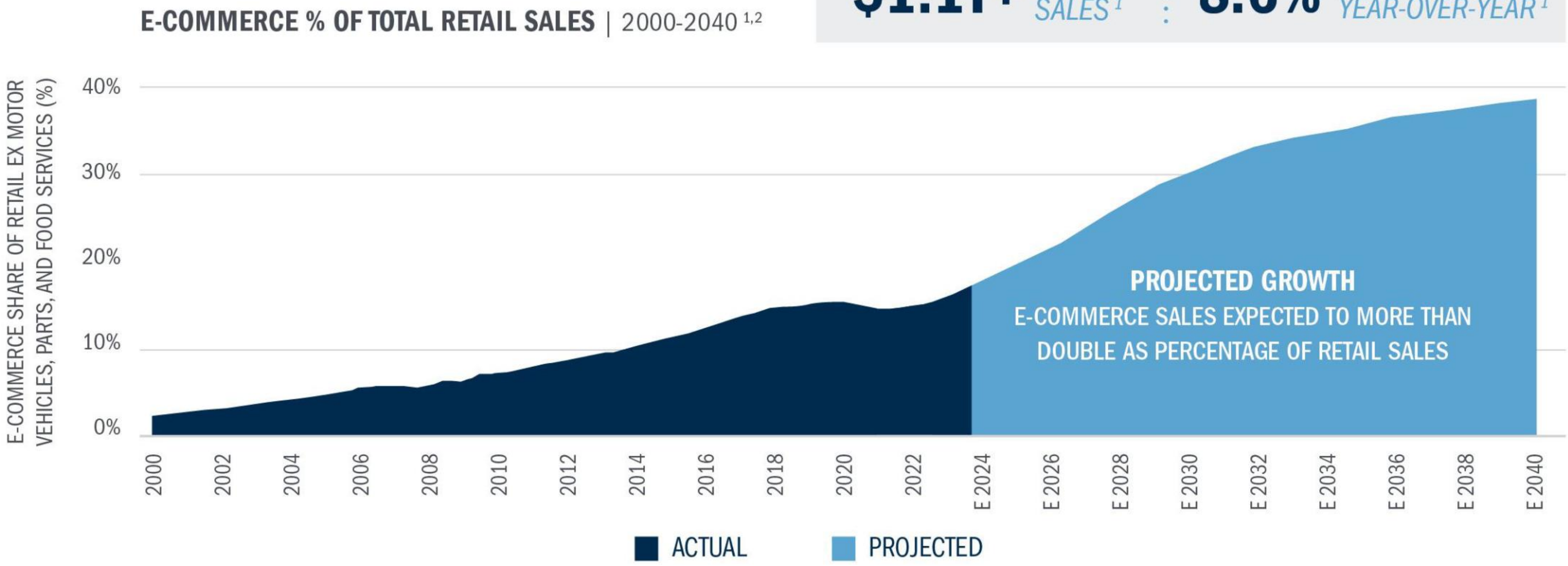
Industrial Real Estate Outlook

- Fundamentals for industrial are strong, powered by the continued growth of e-commerce
- Demand for industrial space will increase dramatically through 2028

E-Commerce continues to gain market share vs. bricks and mortar

- E-commerce's growing share of retail sales is a structural economic trend that will continue well into the future, spurring increased demand for industrial space.

$1.1T+ ONLINE SALES[1] | **8.6%** INCREASE YEAR-OVER-YEAR[1]

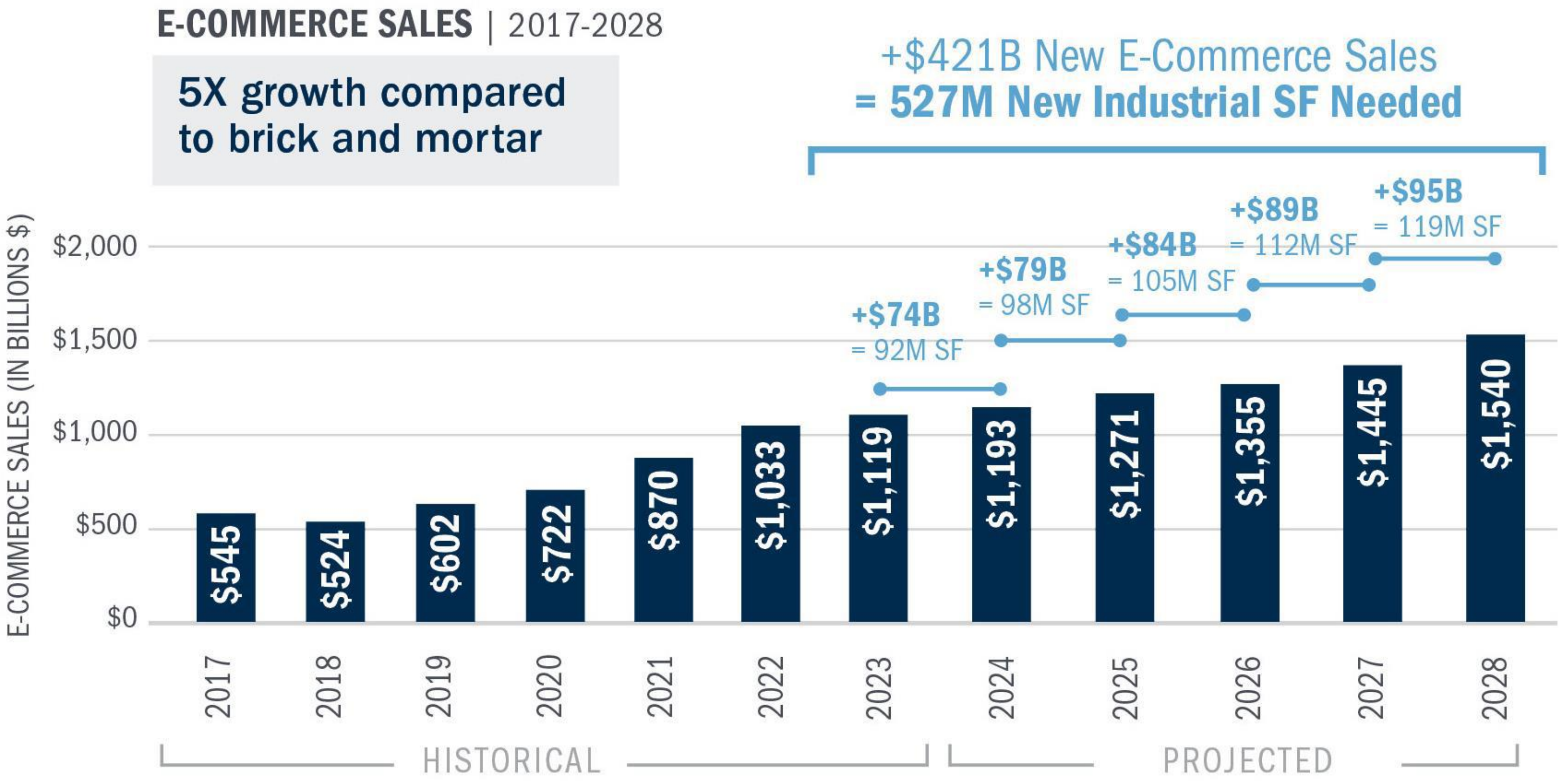


[1] Source: Trailing 12-months, U.S. Census Bureau, May 2024. Based on near term E-commerce projections from Green Street Industrial Outlook, January 2024. $1 billion of e-commerce sales requires approximately 1.25 million square feet of industrial space. Total industrial demand calculated using Green Street projection of e-commerce accounting for approximately 25% of total industrial demand. (Green Street U.S. Industrial Outlook January 2024).

[2] Sources: U.S. Census Bureau, May 2024 | Projections from CBRE EA: Pandemic Accelerates E-Commerce Adoption Implications for Industrial and Retail. The percentages presented for future periods are projections and there is no guarantee that these projections will accurately reflect future performance. E-commerce sales are sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated over the Internet, mobile device (M-commerce), extranet, Electronic Data Interchange (EDI) network, electronic mail, or other comparable online system. Payment may or may not be made online. Online travel services, financial brokers and dealers, and ticket sales agencies are not classified as retail and are not included in either the total retail or retail e-commerce sales estimates. Projections are for 2030 and 2040 and not annual, each year estimated based on 2030 and 2040 projection.

E-commerce powering demand for an incremental 530 million square feet in industrial through 2028[1]

- Total industrial demand could reach an additional 2 billion square feet from 2024 to 2028



[1] Source: Trailing 12-months, US Census Bureau, May 2024. Based on near term E-commerce projections from Green Street Industrial Outlook, January 2024. $1 billion of e-commerce sales requires approximately 1.25 million square feet of industrial space. Total industrial demand calculated using Green Street projection of e-commerce accounting for approximately 25% of total industrial demand. (Green Street U.S. Industrial Outlook January 2024).

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Single-Family Rental Real Estate Outlook

Executive Summary

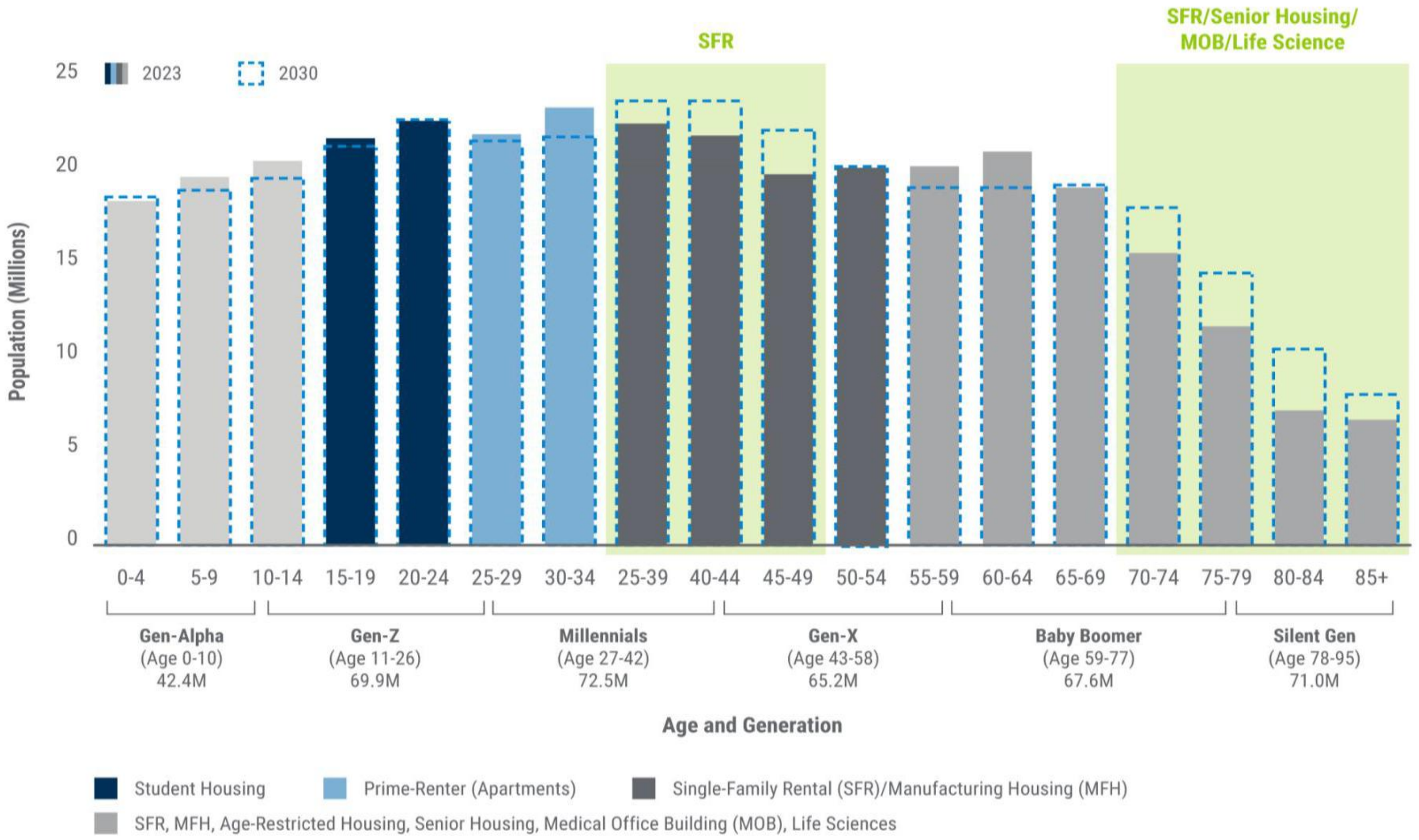
Single-Family Rental Real Estate Outlook

- Demographic trends driving demand for single-family rentals
- Historically low levels of for-sale housing increasing demand for rentals
- Renting now significantly more affordable than owning

Demographic trends shaping investment opportunities in single-family rental real estate

- By 2030, significant increases are projected in the 35-49 and 70+ aged cohorts
- This has significant implications for single family rentals demand

U.S. Population By Age & Generation Can Help Target Real Estate Investment Opportunities



Source: Chart courtesy of Clarion Partners, Q1 2024

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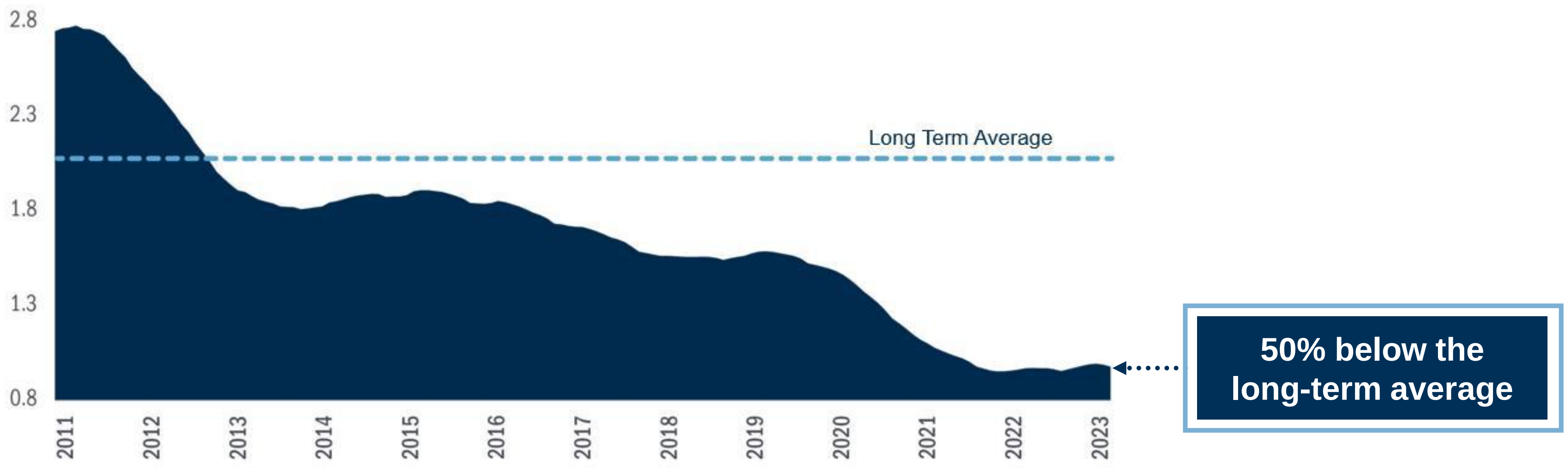
Low levels of for-sale housing inventory mean increased demand for rental housing

- Existing home inventory levels have normalized at approximately 50% below the long-term average due, in part, to homeowners locked into low-rate mortgages
- This has exacerbated the national housing shortage as population growth is expected to generate demand for an additional 15 million housing units over the next decade[1]

TTM Average National Existing Home Inventory[2] (MM-Units)

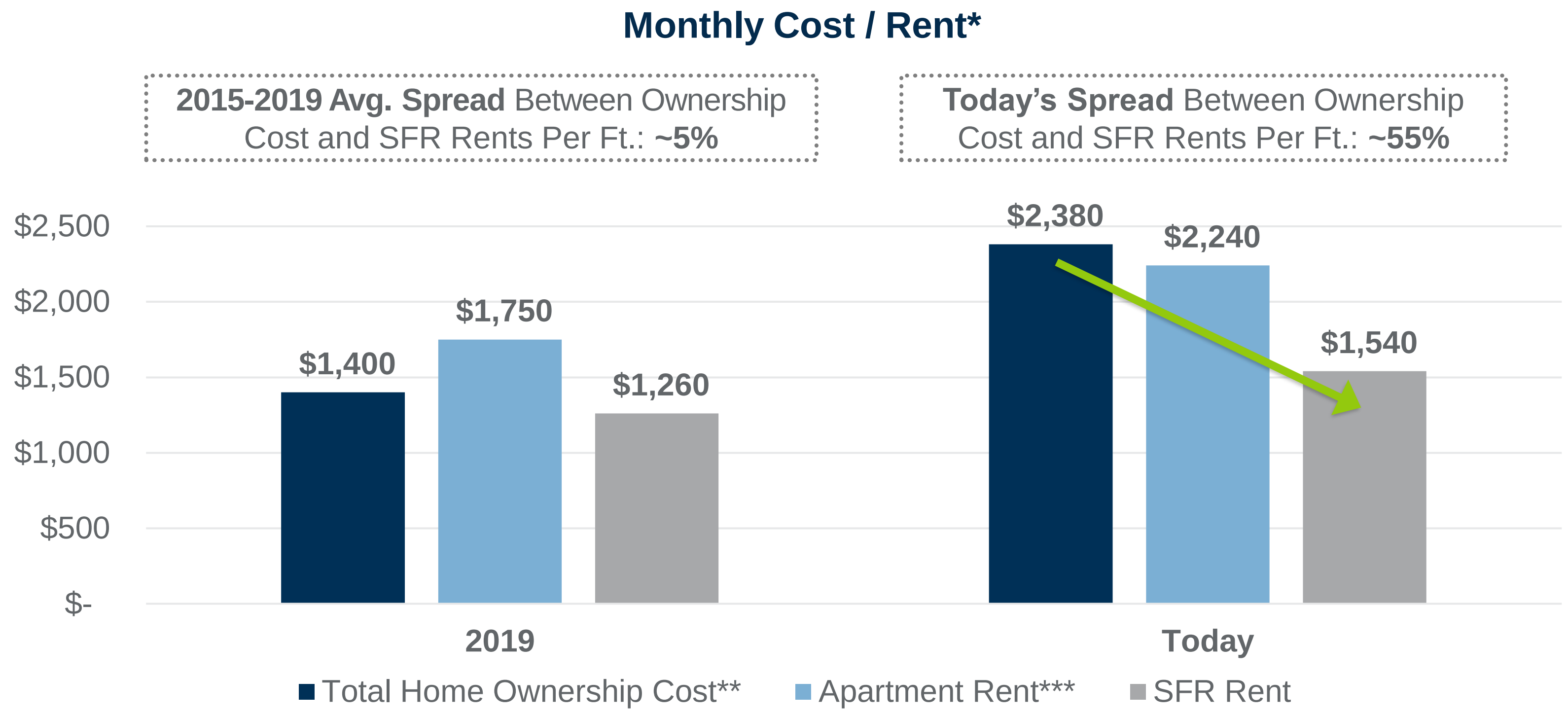


[1] Source: PGIM Real Estate,2024 Real Estate Outlook

[2] Chart Source: National Association of Realtors. TTM = Trailing 12 Months

Single-family rentals are 55% more affordable than mortgage payments

- Compared to 5 years ago, rents for single family rentals are much more affordable than owning similar homes, a trend we see significantly boosting single family home rental rates for 2024 and beyond.



* Based on 1,400SQFT

**Based on avg. monthly payments for a home across the Top 25 SFR markets after a 20% downpayment. Assumes a high-6% and high-3% mortgage rate today and '19, respectively.

***An estimate based on REIT disclosure and Green Street assumptions. Representative of Top 25 SFR Markets.

Source: Green Street, Residential Insights, July 2023

BLUEROCK™

Alternative Credit Outlook

Executive Summary

Alternative Credit Outlook

- Senior Secured Loans and Collateralized Loan Obligation (pools of Senior Secured Loans) offer attractive yield and low duration vs. other fixed income categories with comparatively low default rates
- Upcoming wave of maturing real estate debt may present compelling opportunities amidst need for re-financing

Senior secured loans offer a compelling combination of high yield and low duration

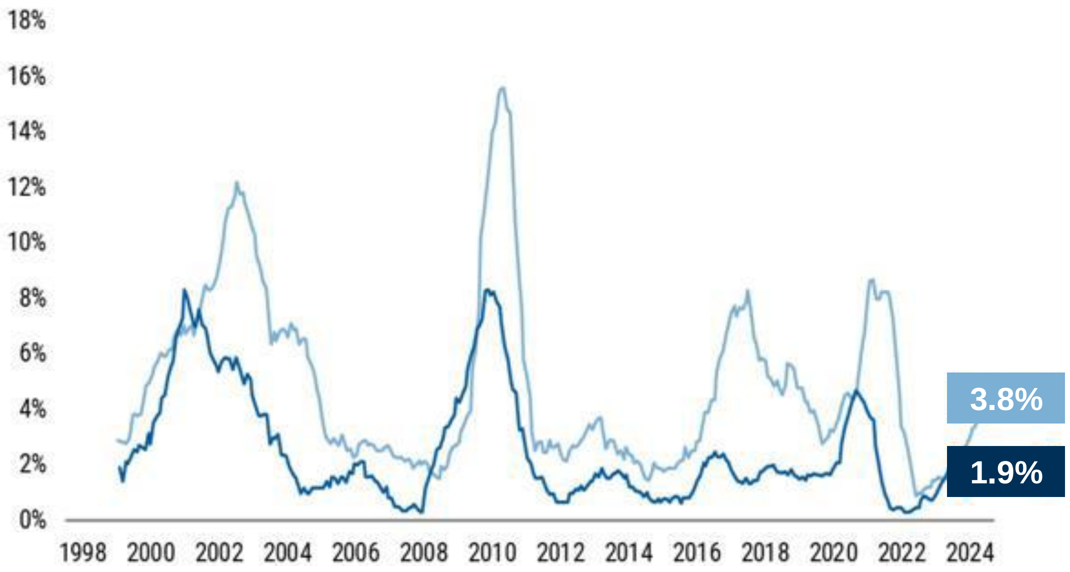
- Senior Secured Loans offer both the highest current yields among many bond and fixed income categories, plus very low duration, which is generally considered a measure of lower risk

Source: Morgan Stanley Wealth Management, Monthly Perspectives, April 2024

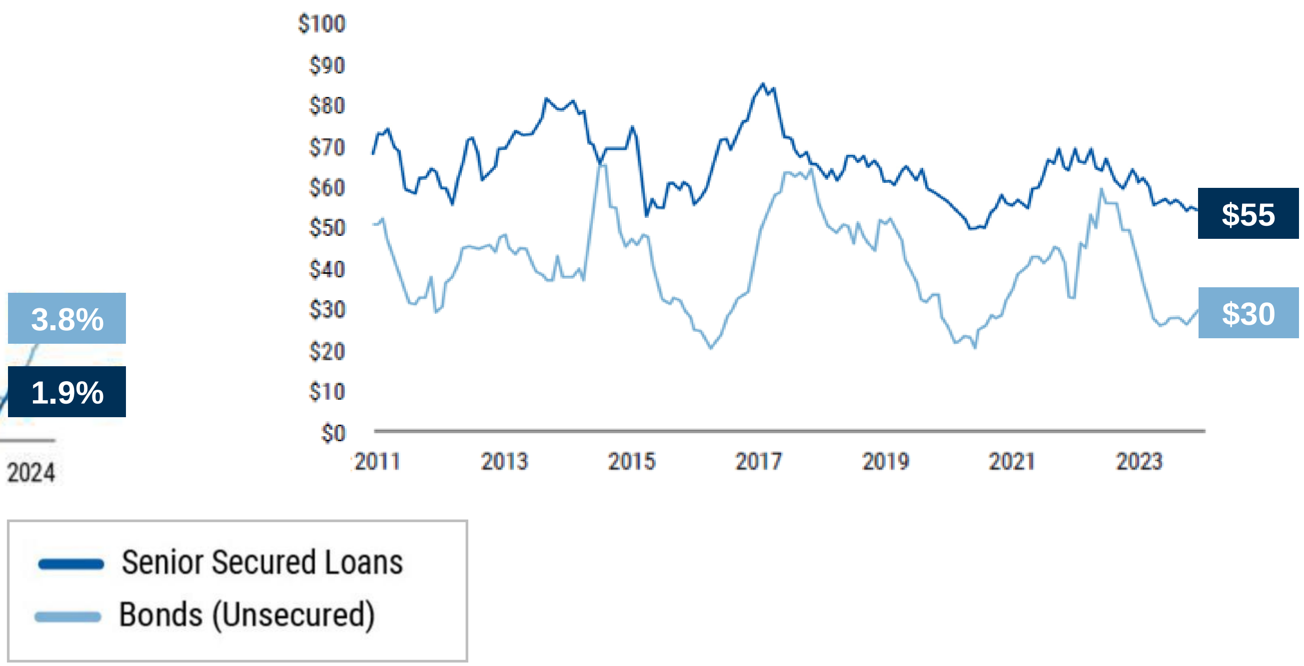
Lower default rates and higher recovery rates make Senior Secured Loans a compelling alternative to High Yield Bonds

- Historically, senior secured loans have experienced substantially lower default rates and higher recovery rates than high yield bonds

SSL Index Default Rates



SSL Recovery Rates
(In dollars received per $100 of initial par amount)

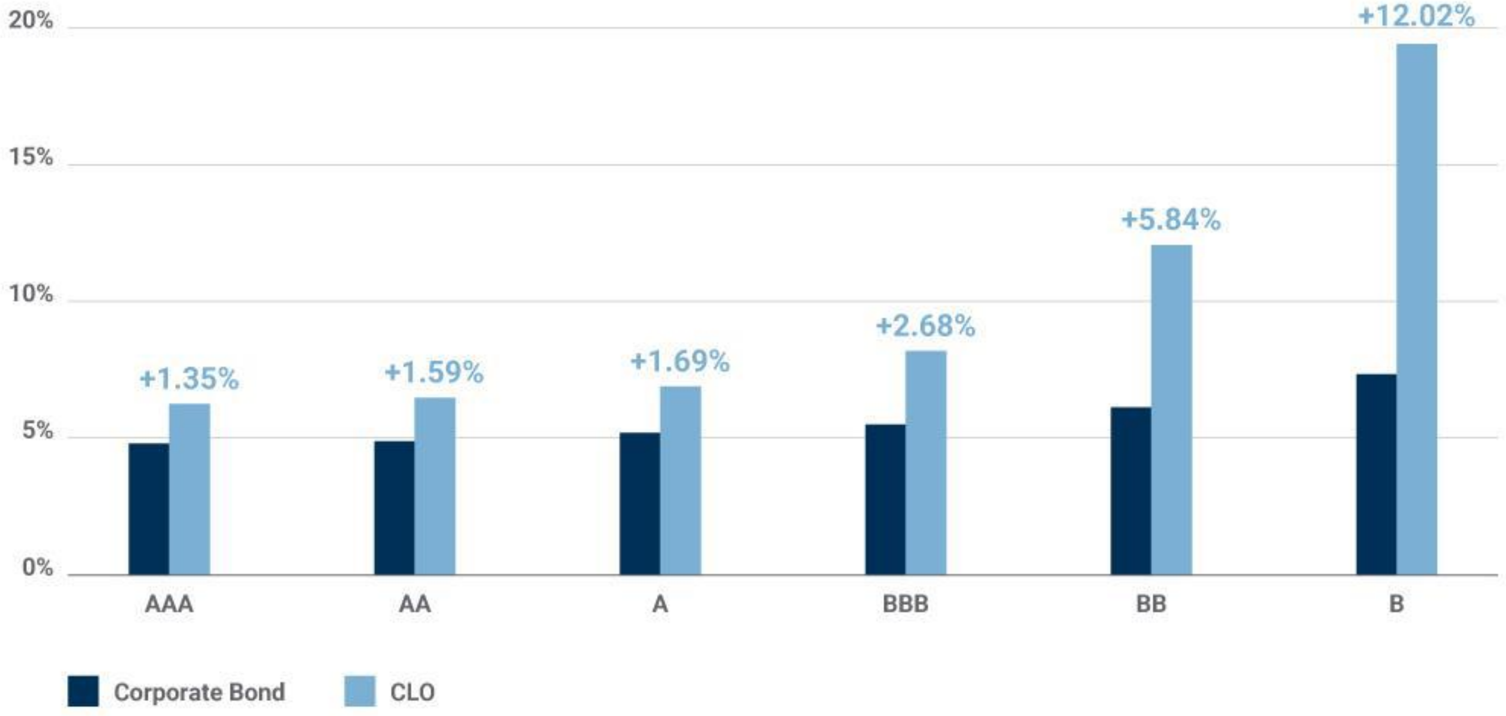


Source: Morgan Stanley Research: Leveraged Loans and CLO Dashboard, April 2024, SSL index is the Morningstar Leveraged Loan Index

CLOs generate higher yields than similarly-rated corporate bonds

- Pools of senior secured loans, called CLOs, generate debt yields that are well above similar rated corporate debt in early 2024
- Fixed rate corporate debt yields currently reflect historically very low spreads vs. risk free rates.
- The CLO yield premiums increase across the ratings spectrum, highlighting the significantly higher income opportunities across categories of CLOs

CLO Debt Yields vs Similar Rated Corporate Bond Yields
(As of 3.31.2024)

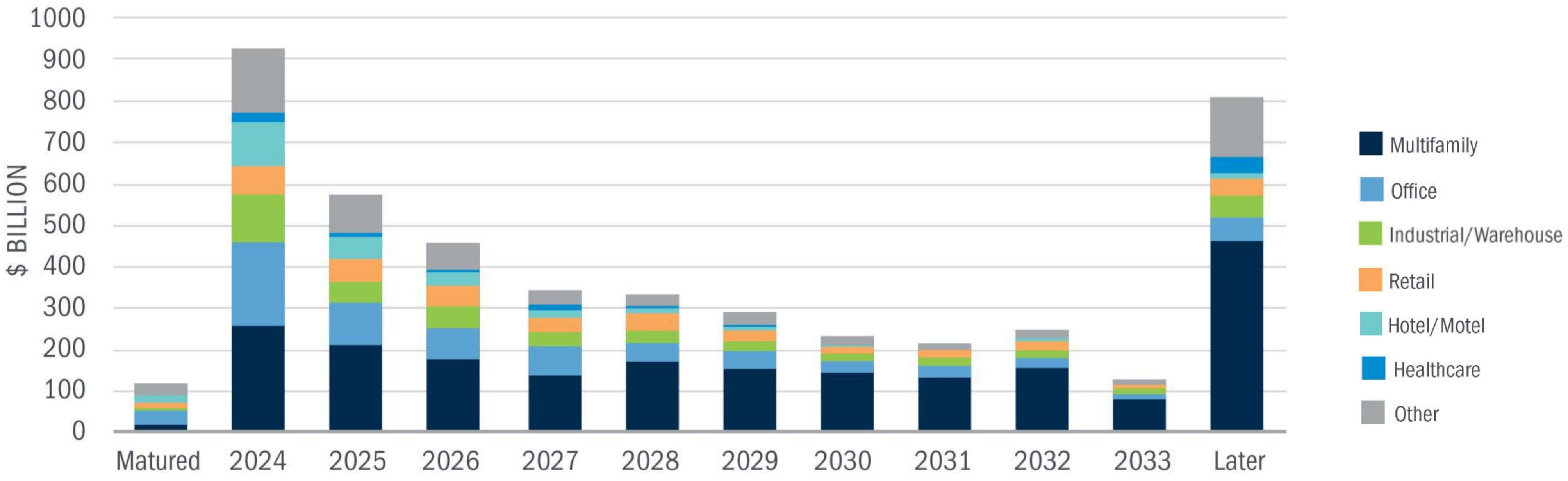


Sources: Bloomberg, Federal Reserve

Wave of maturing commercial real estate debt presents attractive opportunities for investors

- The latter half of 2024 will see a large amount of maturing commercial real estate debt at a time when market values have fallen 20%+
- We see tremendous opportunities emerging for various forms of refinancings, recapitalizations, and other capital solutions

U.S. Commercial Real Estate Mortgage Debt Maturities



Source: Morgan Stanley Wealth Management, Monthly Perspectives, April 2024

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CANTOR Fitzgerald®

CANTOR
PERSPECTIVES

August 1, 2024

Seizing the Opportunity

Strategic Entry Points in the Commercial Real Estate Market

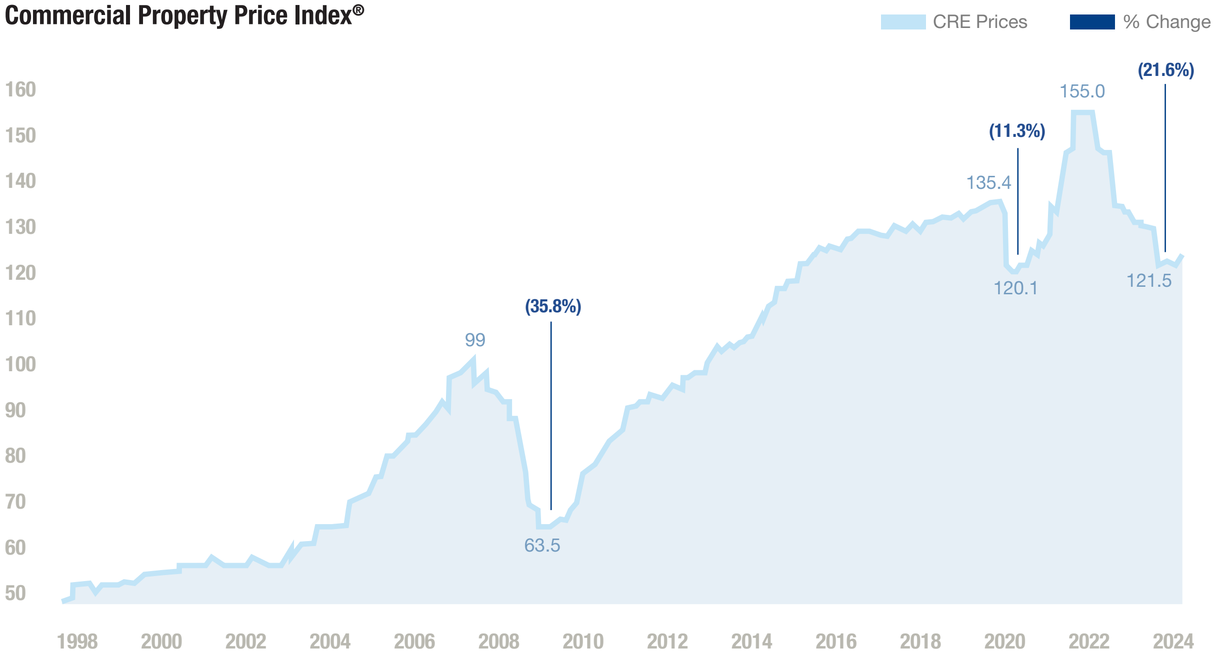
Economic conditions have battered Commercial Real Estate (CRE) prices over the last two years since reaching their peak in April-May 2022. Green Street Commercial Property Price Index® (CPPI) data shows as much as a 21.6% drop during that period.

However, since reaching a bottom in January 2024, CPPI movement has trended slightly upward, which, alongside other leading indicators, suggests that the CRE market is at or near its bottom for the current economic cycle.

These conditions highlight the strategic opportunity of entering the CRE market through vehicles with high-quality assets, balance sheet integrity, and appropriate valuations. The second half of 2024 may be the beginning of an attractive entry point for core and core-plus allocations.

FIGURE 1

Commercial Property Price Index®



Source: Green Street Commercial Property Price Index®. July 2024.

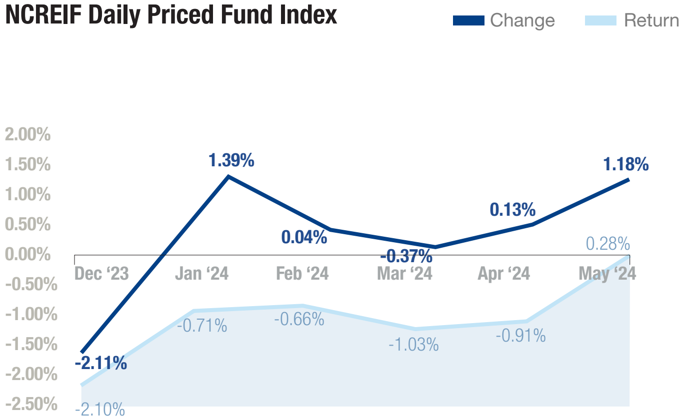
The Current State of the CRE Market

Inflationary pressures and interest rate hikes have played a large part in driving CRE price declines. Social changes such as hybrid work and relocation have added to the turbulence for specific markets, asset types, and certain individual properties.

However, data since January 2024 may indicate that the CRE market correction is leveling.

FIGURE 2

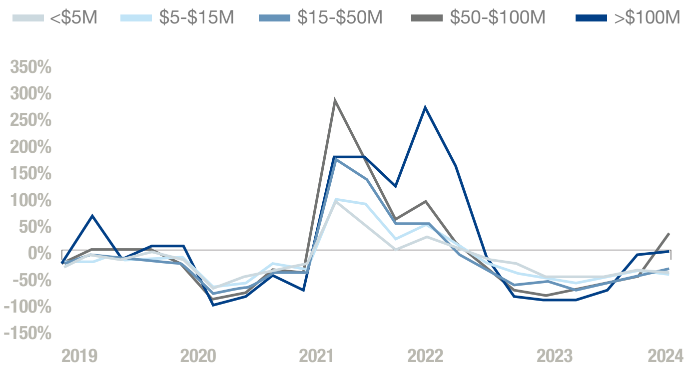
NCREIF Daily Priced Fund Index



Source: NCREIF Month-End Press Releases. December 2023 – June 2024.

FIGURE 3

Year-over-Year Sale Growth (Transaction Volumes) by Sale Size



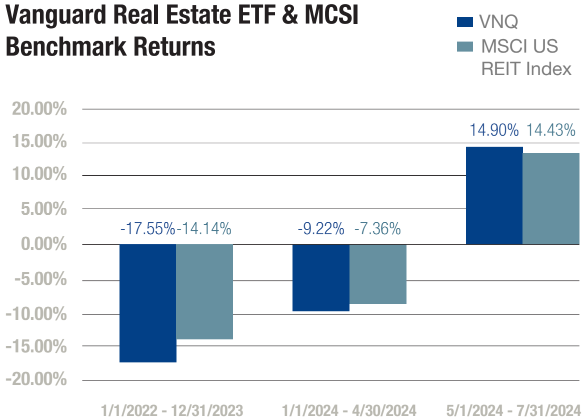
Source: Moody's CRE. 1Q 2024.

In May 2024, the National Council of Real Estate Investment Fiduciaries (NCREIF) Daily Priced Fund Index Data saw its first positive monthly return since the beginning of the year on the back of improving month-to-month conditions—73% of industrial markets and 58% of retail markets generated positive and rising total returns in 1Q 2024. *(See Figure 2)*

Increased transaction volumes indicate a growing confidence among investors and a potential stabilization in property prices. Moreover, the market's liquidity for transactions between $50 million and $100 million have significantly increased, signaling sustained investor interest and activity. *(See Figure 3)*

FIGURE 4

Vanguard Real Estate ETF & MCSI Benchmark Returns

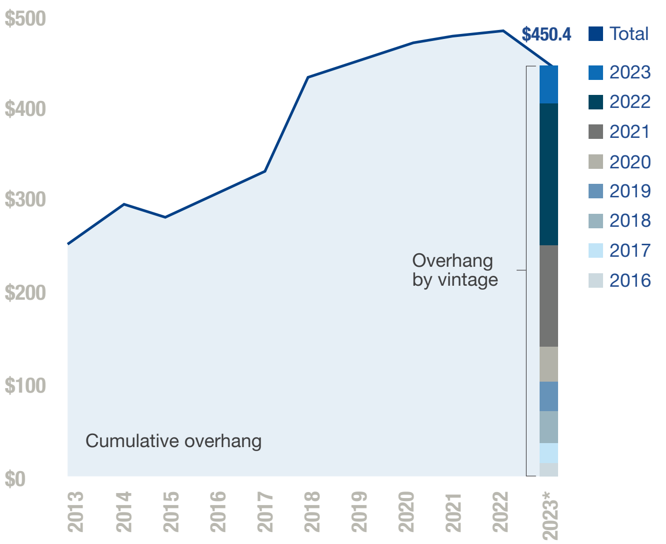


Source: Vanguard. July 2024.

Publicly traded U.S. REITs have historically been a leading indicator for private market pricing and recently have shown signs of recovery. *(See Figure 4)*

FIGURE 5

Real Estate Dry Power ($B) by Vintage

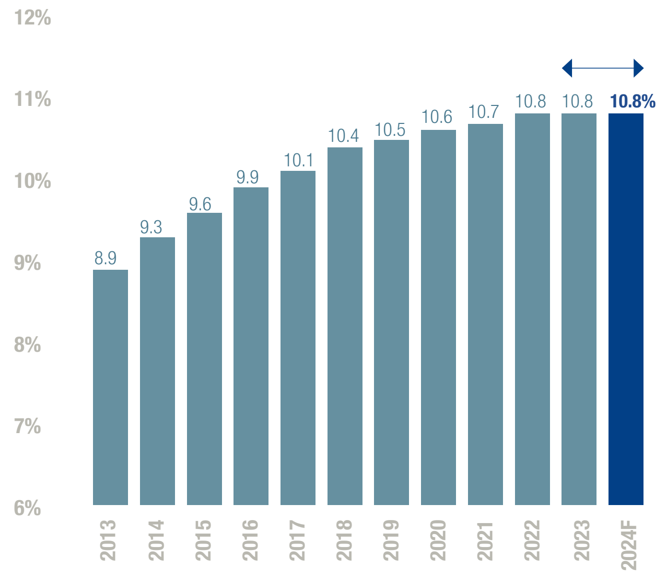


Source: Global Real Estate Report, Pitchbook. H2 2023.

Dry powder for private real estate investments equates to a leveraged purchasing power of $475 billion as of April 2024 (per PitchBook data, based on a 55% loan-to-value ratio), suggesting pent-up demand and potential pricing support. *(See Figure 5)*

FIGURE 6

Target Allocation to Real Estate, All Institutions



Source: Hodes-Weill Institutional Real Estate Allocations Monitor. November 2023.

Institutional investors have not backed off on CRE allocations, which remained at 10.8% in 2022 and 2023 and are expected to continue at that level in 2024. *(See Figure 6)*

The combination of increased transaction volumes, stabilizing asset valuations, expectations for interest rate cuts from the Fed, and emerging positive sentiment within the industry provide reasons for optimism that the CRE market is poised for a recovery.

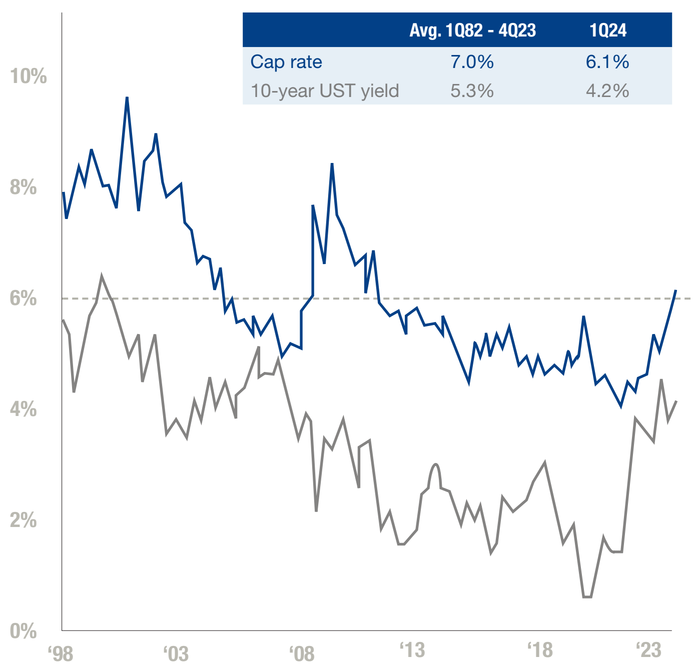
Under such conditions, investors can capitalize by targeting fundamentally sound assets with strong balance sheets and realistic valuations to be ready for the market transition out of its correction phase. On the upside, strategic investments during this period may yield substantial returns as the CRE market regains momentum.

Although some investors may be tempted to wait until seeing the exact bottom of the market, doing so is difficult. Instead, recent data as seen in Figure 7 on the right shows that CRE properties can be acquired at attractive valuations and a healthy spread of 190 basis points to 10-year Treasury yields. This is the first time in over a decade we have seen transaction cap rates exceed 6%. The key for long-term investors is to recognize attractive relative valuations. This approach minimizes the risk associated with market timing while maximizing the potential for long-term outperformance.

FIGURE 7

U.S. Real Estate Cap Rates and Interest Rates

Transaction based, 10-year U.S. Treasury yield



Source: J.P. Morgan Guide to Alternatives, May 31, 2024.

Means of Entry: Vehicles and Due Diligence

Not all CRE assets are created equal, however, so due diligence is paramount. While some news headlines about individual property sector stress, such as multi-tenant office buildings, might distort perceptions, investors looking for an entry point can find well-constructed vehicles focusing on asset, sector, and geographic quality with appropriate valuations.

Asset Quality

Investors should look to vehicles with attractively valued assets that reflect the impact of recent market conditions but possess strong fundamentals. These assets are likely to outperform as the market recovers. Emphasis should also be placed on properties with resilient traits, such as fully occupied buildings with long-term net leases to strong credit tenants delivering stable Net Operating Income (NOI).

Sector Positioning

Certain regions and sectors are expected to outperform others in the recovery phase. For instance, in the multifamily sector, the cost of purchasing a home relative to renting an apartment has never been more expensive, resulting in a larger and longer-term renter pool. In addition, in some markets, primarily in the Sun Belt, we expect a housing shortage to lead to significant increases in NOI, yielding attractive returns to patient investors. Identifying these macroeconomic conditions can yield higher returns than more volatile sectors.

Balance Sheet Analysis

Investors should prioritize funds with strong balance sheets, moderate leverage, and long-term fixed-rate debt to insulate against poorly timed maturities. This financial stability helps funds weather the current challenging CRE lending environment, brought on by higher interest rates and more restrictive bank lending, in order to capitalize on the recovery and growth phases of the cycle.

Valuation

Assessing the valuations of existing real estate funds is critical. Investors should ensure the funds are priced according to current market conditions rather than outdated valuations. Valuations from 2022 and early 2023 will not reflect the realities of today's market. Proper due diligence helps to avoid overpayment and maximize upside by ensuring that one's entry point reflects current market value.

CRE in Portfolio Construction

Provided investors conduct rigorous due diligence, CRE remains a compelling strategic investment in a balanced portfolio despite the current choppy economic climate. The market resilience of CRE, particularly in sectors like multifamily, net lease, and industrial, supports stable cash flows even during economic downturns.

Factors such as demographic trends, remote and hybrid working conditions, the historic relative affordability of renting versus owning a home, and the increasing demand for specialized property types such as warehouses, logistics, and data centers make it a robust addition to any diversified investment portfolio. Post-COVID macro conditions, which have adversely impacted the multi-tenant office sub-sector, do not negate the overall strengths of the CRE asset class overall, which is much broader than office.

In addition, CRE provides several structural advantages. It offers an effective inflation hedge as rents and replacement costs often increase with inflation, protecting purchasing power. Moreover, CRE offers significant diversification benefits, reducing portfolio volatility by providing exposure to a less-correlated asset class. Finally, CRE investments typically generate highly tax-efficient income through depreciation and other tax advantages, enhancing after-tax returns.

Vehicle Structures

Real Estate Investment Trusts (REITs) provide a straightforward path for accessing CRE. However, REITs come in different structures. Publicly traded REITs and publicly registered non-traded REITs, two types of REITs, have different characteristics that are important to consider.

	Publicly Traded REITs	Publicly Registered, Non-Traded REITs
Accessibility	No minimum investment amounts	Higher minimum investment
	Easy access for retail investors	Greater suitability thresholds for investors
Transparency & Governance	Published real-time share prices	Periodic pricing and valuation, typically monthly
	Subject to stringent SEC governance, financial reporting, and disclosure requirements	Subject to stringent SEC governance, financial reporting, and disclosure requirements
Liquidity	Listed on major exchanges	Typically, semi-liquid vehicles with periodic liquidity
	Easy to enter and exit positions	Required holding periods and exit approval conditions
Correlation & Volatility	Highly correlated to the broader stock market	Low correlation to the broader stock market
	Significant price volatility	Less price volatility, often valued at net asset value (NAV)

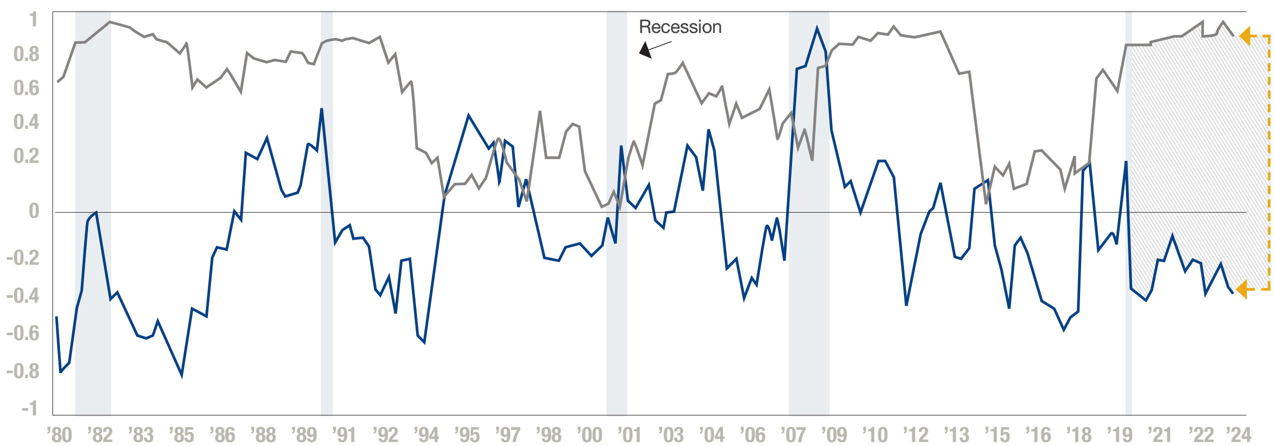
Because of these characteristics, publicly traded REITs are more closely correlated to equity indexes as can be seen in Figure 8 below. Broad index funds already include exposure to real estate via traded REITs, with 25 REITs in the S&P 500 and 75 in the Russell 2000. As a result, non-traded REITs or other private real estate funds are essential for diversification.

FIGURE 8

U.S. REITs, Direct Real Estate and Equities

12-quarter rolling correlations, total return

	Avg. 4Q80 - 1Q24	1Q24
Direct real estate/S&P 500 correlation	-0.1	-0.4
Traded REITs/S&P 500 correlation	0.6	0.9



Source: J.P. Morgan Guide to Alternatives, May 31, 2024.

By leveraging multiple investment structures and conducting diligent analysis, investors can effectively navigate the current economic climate and capitalize on CRE's historically attractive return attributes with an attractive entry point for long-term value creation.

Takeaways

CRE presents a strategic opportunity for long-term-minded investors.

Waiting for a bottom is challenging and may ultimately lead to disappointment.

With its potential advantages, such as acting as an inflation hedge, providing diversification benefits, generating tax-efficient income, and demonstrating market resilience, CRE commands an important role in portfolio construction.

Real Estate Investment Trusts (REITs) offer an accessible pathway to CRE, with publicly traded REITs providing enhanced liquidity accompanied by higher volatility and stock market correlation. By contrast, publicly registered non-traded REITs, while not daily liquid, offer the potential for increased stability, lower correlations, and diversification.

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CIM

From Businesses to Buildings

Comparing Corporate and Commercial Real Estate Private Credit

Discover the versatility and resilience of private, floating rate credit investments and their role in enhancing portfolio diversification amid shifting interest rate environments.

Key Takeaways

Understand how private, floating rate loans in corporate credit and commercial real estate (CRE) compare with an emphasis on these key points:

Funding Focus

Private CRE credit provides tailored financing for real estate deals, while private corporate credit provides financing for corporate operations, capital expenditures, acquisitions, or leveraged buyouts.

Physical Collateral

Private CRE credit allows for an origination process that is tailored to the needs of borrowers with full physical diligence of the collateral.

Risk and Reward

Private CRE loans are typically structured as senior secured mortgage loans, placing investors higher on the capital stack, even above corporate credit investors.

What is Private Credit?

In an era of fluctuating interest rates, investors seeking high current income have found themselves at a crossroads. Invest in traditional fixed income products, which may be sensitive to movements in interest rates and struggle to keep pace in an inflationary environment, or search for investment alternatives to help combat these pressures. What seeks to generate both high current yield and subdued risk exposure?

Enter private credit. Private credit refers to debt investments that are used to finance a wide range of lending activities and are negotiated directly between a lender and a borrower. Private credit investments are often provided by non-bank lenders. Private credit takes different forms, including senior secured loans and mezzanine debt, among other structures. What sets private credit apart is its flexibility and tailored approach to lending, allowing for customized terms and structures that meet the specific needs of both borrowers and lenders.

Private credit can be an alternative source of financing for companies and individuals who may have limited access to traditional bank loans or prefer the flexibility and terms offered by non-traditional lenders.

For investors, private credit has the potential to generate higher returns compared to traditional fixed-income investments. Additionally, private credit may offer more price stability than its public counterparts due to the illiquid nature of private credit investments.

Investors may consider private credit for a higher yield alternative compared to traditional fixed-income strategies.

Capital Stack Seniority

Private credit investments typically sit high in the capital stack structure above equity, giving them priority repayment.

Repaid First

Senior Debt

↓

Mezzanine Debt

↓

Preferred Equity

↓

Common Equity

Repaid Last

What is Private Commercial Real Estate Credit?

When we discuss private CRE credit, we are referring to privately negotiated loans directly between a lender and a commercial real estate borrower. These loans are provided to real estate investors to finance property or land acquisitions, refinance existing debt, or fund capital-intensive projects such as new construction.

Private CRE Credit: Financing for the acquisition, development, or refinancing of commercial properties.

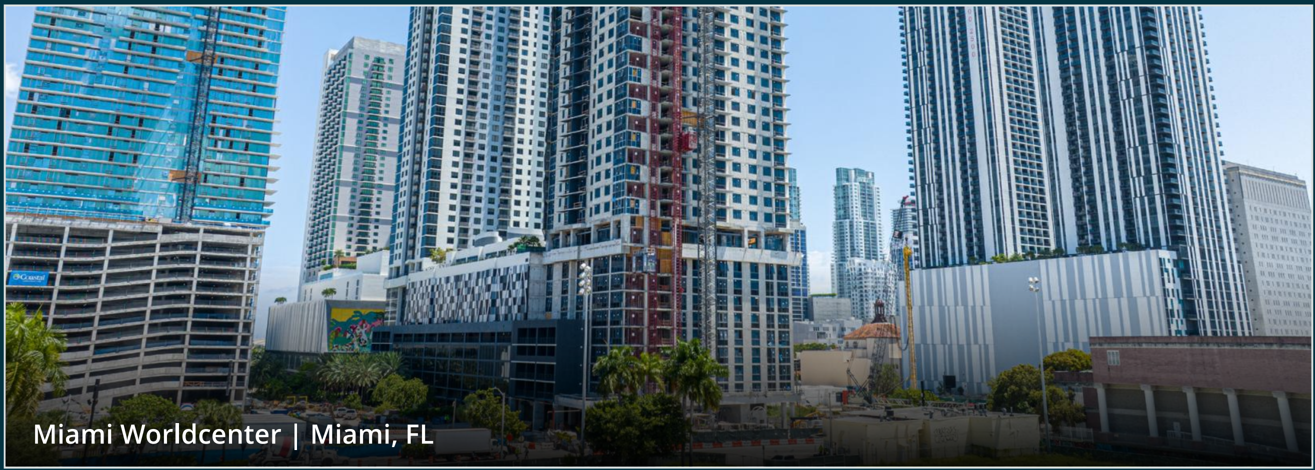
What is Private Corporate Credit?

Private corporate credit is generally used to raise capital for corporate operations, capital expenditures, acquisitions, leveraged buyouts, or other corporate transactions. Like private CRE credit, private corporate credit has proliferated following the Great Financial Crisis, and non-bank lenders have become increasingly active in providing debt capital to companies in the form of "middle market loans."[1]

Corporate Credit: Financing for ongoing operations, mergers and acquisitions, or business expansion.

Companies seeking private corporate credit may not have a credit rating, or may have earnings below a certain threshold, making traditional debt capital raises (like public bond offerings) less attractive. Companies with lower credit ratings or a smaller cash flow profile typically accept loans at a higher interest rate than those with highly rated credit. The interest rates charged to borrowers are a function of several factors, including financial health, operating history, size and industry, as well as the federal funds rate and general economic conditions. Therefore, private corporate credit and middle market loans tend to provide attractive yields to investors while solving a need for the borrowers to aid business growth.

Because private corporate credit is debt, it has a higher payment priority than equity, offering investors the potential for further downside support.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How Does Private CRE Credit Compare to Corporate Credit?

Physical Collateral

Senior Mortgage Security

Private CRE credit can build upon the advantages of private corporate credit, such as price stability, while also offering other potential benefits. Such loans are typically structured as senior secured mortgage loans backed by real estate collateral. This structure gives investors priority in repayment, even over corporate credit, which may be unsecured debt or have secondary liens. The tangible nature of real estate assets may further help to reduce credit risk, since physical collateral can be seized in the event of bankruptcy or default. Additionally, these properties often have underlying cash flows and lease agreements to serve as sources of capital to pay debt service.

Due Diligence

Another potential benefit of private CRE credit is transaction and property due diligence. Private CRE credit's tailored origination process allows for deep, non-public underwriting of both collateral and borrowers. This is typically done through physical site visits and third-party consultant reports, in addition to meetings with management of the underlying borrower.

Loan Structure

Structural features of underlying loans can be enhanced with financial covenants or cash management agreements, or by requiring further collateral support for loans. Market conditions influence how much structure is built into a private loan, whether corporate or real estate, and the current environment has favored real estate given the lower supply of liquidity and less certainty around asset valuation.[2] Private corporate credit today is generally seeing the execution of "covenant-lite" loans, which are more favorable to borrowers than lenders.

Summary of Private CRE Credit's Key Attributes:

Physical Collateral: Secured by real estate mortgages.

Senior Mortgage Security: Mortgage collateral generally has priority repayment over unsecured debt.

Due Diligence: Through non-public underwriting, lenders tend to know their borrowers well.

Loan Structure: Private CRE loans may provide the opportunity for more bespoke structure with enhanced credit support.

Snapshot Comparison

	Private Corporate Credit	Private CRE Credit
Asset Type	Loans to corporations or businesses	Financing for commercial real estate projects
Collateral	May or may not be secured by specific assets	Secured by underlying real estate assets
Risk Profile	Varies based on the financial health of the borrower	Varies based on the quality of the underlying property and its return profile
Lending Source	Banks, insurance companies, BDC's, private equity/credit funds, private lenders specializing in corporate lending	Banks, insurance companies, private equity/credit funds, REITs, private lenders specializing in real estate financing
Purpose of Financing	Working capital, expansion, debt refinancing, acquisitions	Acquisition, development, construction, refinancing of commercial real estate properties
Risk Factors	Economic conditions, industry-specific risks, corporate performance	Property market fluctuations, tenant vacancies, property-specific risks
Market Liquidity	May have greater or lesser liquidity depending on the nature of the loan	Lower liquidity due to the structure of transactions, which can create an illiquidity premium for the interest rate

Built to Last

With its focus on bespoke lending solutions and collateral-backed investments, private CRE credit stands out for its potential to generate stable income, mitigate risk, and provide portfolio diversification. By understanding the distinct advantages and characteristics of private credit, investors may uncover alternatives to unlock additional opportunities for income generation and portfolio resilience.

Learn more about CIM's credit platform and approach to CRE lending at cimgroup.com/credit.

Note: All pages of this white paper must be viewed in conjunction with the Important Disclosures and Disclosure Statement at the end.

Footnotes

1. Cambridge Associates: Growth of Private Credit Markets, April 2024. Accessed 5/31/2024.

2. MSCI Capital Trends US Big Picture: Debt Snapshots “Spread to Corporate Debt Rises to All-time high” February 2024. Accessed 5/31/2024.

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EXCHANGE RIGHT

EXCHANGERIGHT

2024 MACROECONOMIC OUTLOOK

KEY TAKEAWAYS

STAYING CONSERVATIVE: ExchangeRight has met or exceeded investor projections in all of its offerings since its inception by focusing on macroeconomic conditions and adjusting its strategy accordingly. As recession risk rises, ExchangeRight continues to serve investors' needs for stable income and capital preservation with diversified portfolios of necessity-based net-leased real estate focused on recession-resilient industries and tenants.

MULTIFAMILY MARKET: The multifamily sector faces heightened risks due to oversupply driven by cheap financing, creating potential discounts as that oversupply gets delivered into increasingly softening markets. Despite a 15–20% decline from its cycle peak, we do not believe multifamily has reached its trough.

MULTIFAMILY CONSTRUCTION: Multifamily construction now accounts for nearly 60% of residential construction, compared to a historical average of 30%, playing a key role in elevated employment throughout this extended macroeconomic cycle. Given the prominence of multifamily development this cycle, the feedback loop between recession and multifamily declines may be outsized.

COMING DISCOUNTS: To take advantage of anticipated discounts in economically sensitive asset classes in approximately 12–18 months, ExchangeRight is in the early stages of underwriting multifamily acquisitions. While we want to avoid distress that may impact multifamily in the meantime, we believe there will come a point where the discounts are significant enough to make this asset class an attracting buying opportunity once again.

ExchangeRight designs investment offerings to serve the needs of investors at all points in the macroeconomic cycle. We serve over 8,400 accredited investors across the country, giving us unique insight into the most widespread needs and goals of investors in our industry. The common thread is a need for stable income and capital preservation above all else, regardless of market and economic volatility.

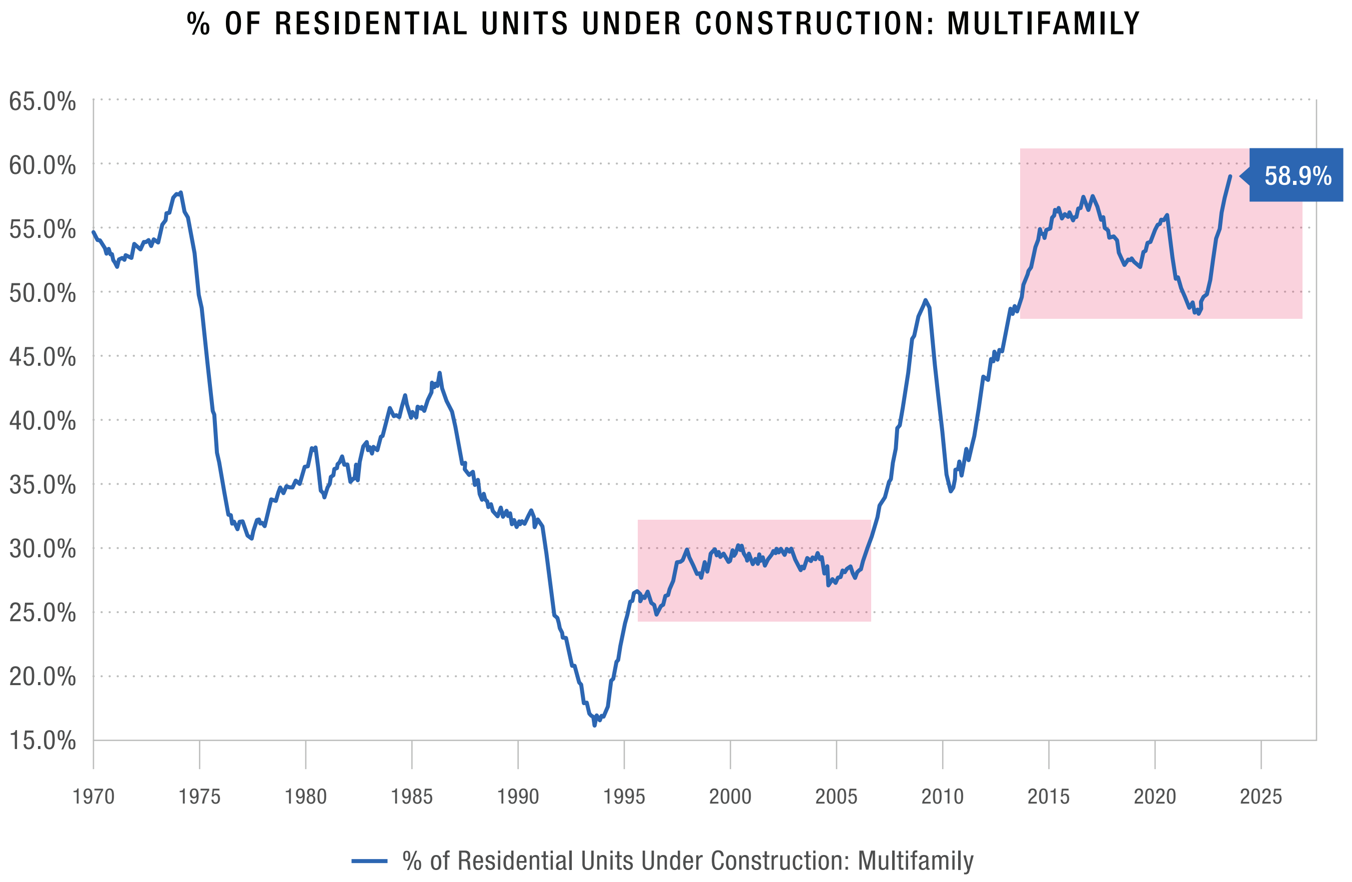
When the economy is headed into periods of recovery out of significant distress, we seek discounted and value-add opportunities within economically sensitive asset classes so investors can participate in the fruits of the early- to mid-cycle growth phase. We generally seek to exit these asset classes when we reach the late-cycle growth phase, when valuations are elevated and growth begins to slow. We are pleased to have profitably exited the multifamily market near the last cycle valuation peak, and we are hoping to re-enter the sector when it hits the next trough.

Throughout all stages in the cycle, and especially near cycle peaks and during economic slowdowns, we focus more exclusively on conservative portfolios that are structured to generate stable income and protect investors' hard-earned wealth from economic distress. Under the present conditions where growth is slowing and recession risk is rising, we are sticking to our discipline by focusing on necessity-based and recession-resilient industries and tenants.

We do not believe we have seen the full impact of higher rates on the economy, but early signs of economic cracks and attractive discounts are emerging. We are preparing to capitalize on future opportunities on behalf of investors in economically sensitive asset classes that are in early stages of their down cycle and distress.

The multifamily sector, with its historic supply backlog generated by low interest rates, is starting to become compelling. Multifamily construction grew to nearly 60% of all residential construction in this extended cycle, whereas it historically has averaged approximately 30% of total residential construction. This excess of supply is beginning to be delivered to already softening markets, which may put increased pressure on rents, vacancies, concessions, and valuations.

The explosion in multifamily construction driven by cheap financing has been a key factor in maintaining elevated employment throughout this cycle, and now that boom is turning into a bust as the backlog of construction projects reach completion without being backfilled. This driver of elevated employment is set to reverse with increasing speed, potentially exacerbating the economic slowdown that has already started to unfold.



MULTIFAMILY CONSTRUCTION NOW ACCOUNTS FOR NEARLY 60% OF RESIDENTIAL CONSTRUCTION, COMPARED TO A HISTORICAL AVERAGE OF 30%.

Chart provided by EPB Research | Sources: Federal Reserve, BEA, BLS, Census Bureau, NFIB

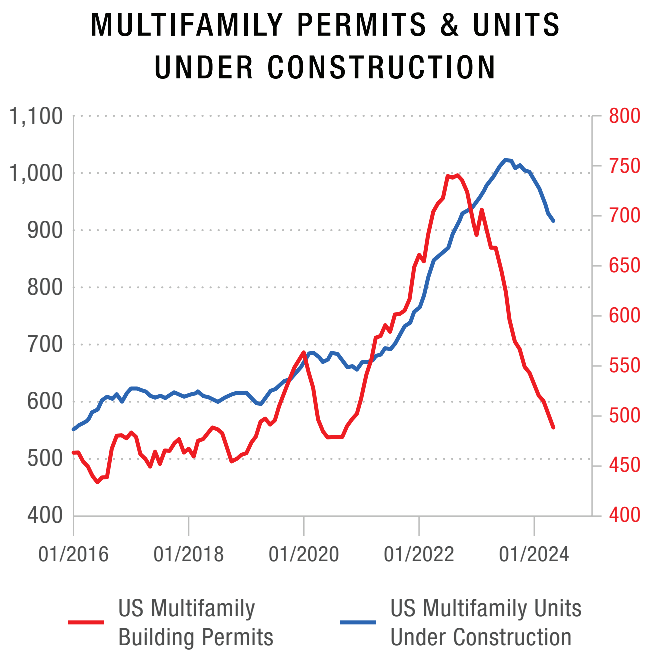


Chart provided by EPB Research
Sources: Federal Reserve, BEA, BLS, Census Bureau, NFIB

Though the multifamily market has already experienced 15–20% downside from the cycle peak, we do not believe that we are yet at a cycle trough and we want to avoid trying to catch a falling knife. Until the backlog of multifamily construction has been delivered and had its full effect—a process which should continue to accelerate over the next 12–18 months—the risks far outweigh the potential benefits.

In addition to higher cap rates driven by higher interest rates, multifamily net operating incomes and cash flows already face slowing rents, increased vacancies and concessions, and rising operating and capital costs. This is before taking into account the massive backlog of multifamily supply and the additional downside risk of a full-fledged recession. Any one of these headwinds, and certainly a combination thereof, may widen cap rates further and amplify these risks.

Real estate is cyclical and rewards patience and discipline. Our goal is to help investors avoid undue risks to their capital and income so that they can be well-positioned to capitalize on opportunities arising from this cycle downturn. It is therefore critical to wait until the distress and discounts become significant enough to create buying opportunities that take advantage of the increased risk and volatility that come with economically sensitive asset classes. And, as is the case in every cycle, those headwinds that originally caused the distress should eventually become tailwinds that can drive greater upside potential after the next economic trough.

Once we do reach the economic trough, we anticipate attractive buying opportunities in economically sensitive asset classes, and as noted above, especially in multifamily. Until then, ExchangeRight is battening down the hatches to protect investors by focusing on diversified portfolios of historically recession-resilient industries and tenants, including grocery, discount retail, and healthcare. Our macroeconomic focus and investment discipline have allowed us to provide investors with an unparalleled track record of meeting or exceeding projections in every offering we have ever launched across multiple asset classes and through all points of the macroeconomic cycle. Past performance does not guarantee future results.

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MULTI-FAMILY AS A CORE ACQUISITION STRATEGY: WHY AND WHEN

A GREENWOOD STAR MANAGER PERSPECTIVE

Kevin Greene, Managing Director
Capital Markets, Greenwood Star Asset Management

Post-COVID, a period of higher interest rates has adversely affected the cost of leverage and acquisition cap rates within many real estate allocation centers, including the multi-family arena. As a result, the market appears to indicate that many investors have shifted significant assets to so-called 'sideline' investments in cash and cash equivalents and emphasized value strategies versus growth. At Greenwood Star, we believe a sentiment shift back to alternatives in general, and real estate in particular, will help the multi-family sector re-emerge as an attractive component to many asset allocation strategies. Key questions include WHERE?, WHY?, and WHEN?.

WHERE DO INVESTORS WANT TO INVEST?

According to the Capgemini World Wealth Report 2024[1], an annual international report covering Affluent, High Net Worth (HNW), and Ultra HNW (UHNW) investors, "early 2024 data reveal a normalization of cash holdings to 25% of portfolio totals, a stark contrast to the multi-decade highs of 34% seen in January 2023, when investors sought safety amid market uncertainty. HNWIs have begun to channel their cash into higher-return assets to leverage possible future growth opportunities".

The following chart[2] from the Capgemini Research Institute shows an increasing allocation shift to Alternatives, Real Estate, and Fixed Income and a dramatic lessening of exposure to Cash and Cash Equivalents:

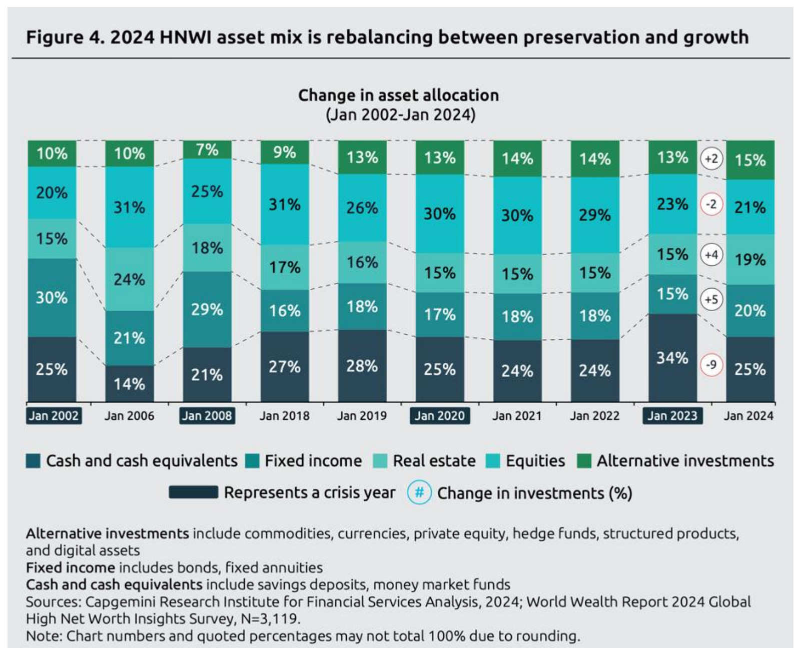
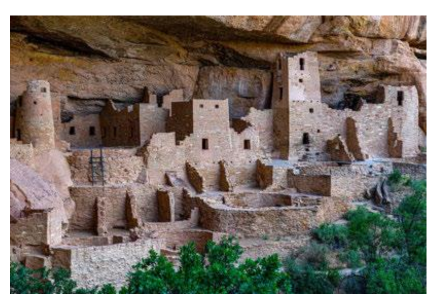


Figure 4. 2024 HNWI asset mix is rebalancing between preservation and growth

Alternative investments include commodities, currencies, private equity, hedge funds, structured products, and digital assets
Fixed income includes bonds, fixed annuities
Cash and cash equivalents include savings deposits, money market funds
Sources: Capgemini Research Institute for Financial Services Analysis, 2024; World Wealth Report 2024 Global High Net Worth Insights Survey, N=3,119.
Note: Chart numbers and quoted percentages may not total 100% due to rounding.

WHY MULTI-FAMILY INVESTING MAKES LONG TERM SENSE

Of all the real estate categories,housing is the one asset type whose importance investors can relate to every day. People always need a roof over their heads. Yet, sometimes, an idea can be so obvious that it retreats to the background of our awareness zone. Pictured is a multifamily property that is believed to ge the first in North America, built approximately 1400 years ago!



[1] Source: *Capgemini World Wealth Report 2024, 6.5.24, page 11*
[2] *Chart is for illustrative purposes only. Any projections, outlooks, or assumptions should not be construed as indicative of actual events which will occur.*

Through various life cycles, many people will live in multifamily residences. Tenants may include the following individuals:

- Older retired Americans downsizing to reduce debt, tap home equity, and reduce maintenance responsibilities
- Young people who require location flexibility as they begin their career path, even if they can afford a home
- Workers for whom homes in a given market may be priced beyond their budget

Investing in multi-family assets located in growing markets with high per capita income can provide an opportunity for harvesting income and growth from higher-quality Class A assets.

WHEN WILL BE THE RIGHT TIME FOR MULTI-FAMILY ACQUISITIONS?

The Federal Reserve's stance on interest rates is critical to determining when the various real estate sectors will be ripe for more acquisition activity. If widely hoped-for rate cuts are delayed past a certain point, many multi-family property owners may be unable to renew their upcoming debt at attractive terms, possibly fueling acquisition activities for leverage-distressed but otherwise attractive properties. However, those higher borrowing rates may be a disincentive for acquisitions even at reduced rates.

According to CBRE's Multifamily - U.S. Real Estate Market Outlook 2024[3]:

"Multifamily construction starts are down substantially in response to overall weakening fundamentals and the rapid increase in interest rates. We expect starts will fall by 45% in 2024 from their pre-pandemic average and 70% from their 2022 peak. This decline in starts means that new deliveries will be reduced to less than half the current level by 2026, paving the way for a strong recovery in occupancy and rent growth".

Therefore, we believe the best time for advisors and their investors to bring acquisition capital forward is likely not now but likely later this year and into early 2025. Greenwood Star CIO Dawson Lee points out a possible exception to a 'wait' strategy:

"If a real estate fund manager can identify a Class A Multi-Family asset with no deferred maintenance or major Capex requirements, located in a prospering major metropolitan market experiencing growth, with compelling underlying demographics, and, critically, offers an assumable loan with a low rate from before the recent, Fed rate hike cycle, the right time may well be right now." We believe financial advisors should take the opportunity now, during an 'inflection point' in the Multi-Family Marketplace, to research and evaluate successful managers with strong multi-family track records so that when 'When' becomes 'Now,' they will be ready to make the appropriate strategic and tactical adjustments to client portfolios.

Greenwood Star Holdings, LLC ("Greenwood Star") is a vertically integrated real estate company specializing in the acquisition, management, and disposition of multifamily properties. Founded in 2013 by Lisa Li and Dawson Lee and headquartered in Atlanta, Georgia, Greenwood Star, and its affiliated companies have owned and managed more than 37 multifamily properties with over 7,500 apartment units valued at over $700 million across the Southern United States. Greenwood Star currently has completed 29 full-cycle multifamily transactions and owns and manages 8 multifamily properties with 2,163 units valued at more than $500 million.

[3] CBRE's Multifamily - U.S. Real Estate Market Outlook 2024 https://www.cbre.com/insights/books/us-real-estate-market-outlook-2024/multifamily

Hines

AUGUST 2024

Five Emerging Opportunities in Real Estate Investing in a New Economic Era

BY DAVID STEINBACH | HINES

As I reflect on where markets stand at this point in 2024, I keep coming back to the idea of "liminal space." The term derives from the Latin word "limen," meaning threshold. It's commonly used to describe the transition from one state to another. In architectural terms, this concept translates to areas like hallways or stairways.

I think this is especially relevant to what we're experiencing in markets as we move further away from unusually low interest rates to a different environment—crossing the threshold to a new economic regime. Despite the uncertainty that's inevitable during times of change, this journey may also present attractive investment opportunities for those who know where to look:

1. **Vintage Timing:** Historically, some of the best fund vintages have occurred when values are correcting. For example, 1993 especially stands out as a year where book valuations were still two years away from finding a bottom, but funds launched that year delivered the second-best vintage in the history of Preqin's North American funds data. Given that context, history would suggest that 2024 may be an excellent vintage to put fresh capital to work.

2. **Living:** Now that the chaos of pandemic migration has eased, new demand has emerged from the changing needs of Millennials, now the U.S.'s largest group of homebuyers.[1] Meanwhile, an acute housing shortage is being exacerbated by pressures from higher interest rates and disrupted supply chains. In this landscape we're seeing increased confidence in long-term appreciation and rental yields, with a growing trend towards build-to-rent communities.

3. **Retail:** We think this sector has already emerged from its "structural shift" and is quickly developing into a high-conviction area. Even with lower demand, muted supply has resulted in historically low vacancies.[2] We're seeing potential to invest in the right locations and sub-types to take advantage of a recovery in rents and values. We also expect manufacturing to exert increased influence in industrial demand over the next few quarters.

4. **Office:** Not all office segments are created equal. For example, trophy-grade office has continued to see positive demand despite broader challenges. In fact, this segment of the U.S. office market makes up just 6.5% of overall inventory, but has garnered more than 25% of positive net absorption since 2000.[3] As more workers return to work, competition for these more desirable spaces should only increase. We must also remind ourselves that work-from-home is increasingly more of a U.S. trend—with more than 70% of the workforce back to the office in other regions,[4] so we would argue that the office investment opportunity is higher conviction globally.

5. **Geographic Diversification:** While global diversification may offer investors and real estate allocations a broader and more compelling investment thesis over the mid- and long-term, we're becoming increasingly bullish on the U.S. market overall. Continued growth is expected over the second half of 2024 in the U.S. thanks to a resilient labor market and strong consumer spending. That strong economic growth is likely to serve as a foundation for strong real estate fundamentals performance.

Read more in our 2024 Mid-Year Outlook.

David Steinbach serves as Global Chief Investment Officer at Hines.

[1] National Association of Realtors. As of April 3, 2024.
[2] Costar, Hines Research. As of 1Q 2024.
[3] CoStar, Hines Research. As of 4Q 2023.
[4] JLL, Hines Research. As of 2Q 2023.

Hines

J.P.Morgan
ASSET MANAGEMENT

BLUEVAULT™

2024 Mid-Year Investment Outlook

A rising tide lifting most investment boats

Key takeaways

- The U.S. economy looks set to see a continuing gradual moderation in economic growth, jobs and inflation, providing a rising tide to support most long-term risk assets.
- International economic data have begun to inflect upwards, with further room to run given still below trend consumption and lower inflation. Positive economic surprises suggest peak pessimism about international. More progress in disinflation in some corners mean some central banks moving before the Fed, keeping the dollar elevated.
- Given the swift repricing in policy rate expectations that occurred in the first half of the year, we expect long term interest rates to generally stabilize for the remainder of this year. However, given the shallow path of expected rate reductions in the years ahead, the yield curve is likely to remain inverted for some time, suggesting active management around duration and credit are key.
- After a strong run in U.S. equities, the backdrop remains supported by healthy earnings growth, increased investment in AI and a wave of buyback announcements. Opportunities remain, but valuations are not cheap and return expectations should be more modest from here.
- U.S. concentration within global equities is extreme, but other markets have begun to catch up. A positive cyclical turn, combined with structural tailwinds and cheap valuations, suggest more strong performance to come, with a broadening out by company and region than seen thus far.
- Through diversification, inflation protection and alpha generation, opportunities in alternatives can help better prepare portfolios for challenges that may lie ahead.
- Despite significant uncertainty, the outlook for the rest of 2024 remains constructive, though investors would do well to broadly diversify across high-quality assets.

J.P.Morgan
ASSET MANAGEMENT

U.S. economy: Extending the expansion

The economic expansion, which started with a very swift rebound from the pandemic recession in April 2020, has now entered its fifth year. However, while growth remains a little stronger than expected and inflation a little hotter, the broad trend is of an extended expansion powered by voracious consumers, a surge in immigrant workers and competition suppressing inflation. The economy has now survived its cyclical fever and will likely continue on a path of mildly moderating growth and inflation unless and until it is hit by some unexpected substantial shock.

The first impression presented by recent GDP numbers is one of sharp deceleration, with real GDP growth falling from 4.9% annualized in the third quarter of 2023 to just 1.3% in the first quarter of 2024. However, first impressions can be deceiving and are in this case. Most of the measured slowdown was due to a sharp downturn in net exports and inventory accumulation, the two most volatile and, arguably, mismeasured components of GDP. Excluding these sectors and looking instead at final sales to domestic purchasers, real growth downshifted much more modestly from 3.5% in the third and fourth quarters of 2023 to 2.5% in the first quarter of 2024. Early estimates suggest real GDP growth of roughly 2.5% in the second quarter, continuing a growth trend that is well above the Federal Reserve's (Fed's) estimate of the long-run growth potential of the U.S. economy, currently pegged at 1.8%.

This growth is particularly remarkable given the widespread recession fears of a year ago and is mainly due to two factors. First, consumer spending has remained remarkably strong even in the face of dwindling pandemic savings. With an extended period of positive real wage growth and significant recent gains in wealth, consumer spending should continue to drive the expansion forward into 2025.

The other big surprise in the past year has been the resilience of investment spending in the face of higher interest rates and a credit crunch exacerbated by last year's mini banking crisis. This resilience largely reflected healthy corporate balance sheets, federal government incentives and a surge in demand for AI-related technology. This also should continue into 2025, providing the potential for continued moderate economic expansion in the absence of a major shock.

Labor markets have also shown some moderation in recent months with the unemployment rate edging up to 4.0% from a low of 3.4% set in April 2023. Still, the unemployment rate has now remained at or below 4% for two and a half years, the longest such stretch since the late 1960s. Job openings have continued to ease but remain above pre-pandemic levels. Remarkably, despite some modest deceleration in recent months, non-farm payrolls have climbed by almost 2.8 million over the past year, as labor force participation among those aged 18-64 has continued to rise and the labor force has been bolstered by a surge in new migrants. Equally remarkable, wage growth has continued to decelerate, with the year-over-year (y/y) change in average hourly earnings falling from 4.6% in May 2023 to 4.1% a year later.

This moderation in wage growth, perhaps reflecting both the long-term decline in unionization and a surge in relatively low-wage immigrant workers, is allaying fears of cost-push inflation. Still, progress toward lower inflation has stalled in recent months with a rebound in energy prices, only a very slow decline in shelter inflation and auto insurance rates still up by more than 20% y/y. We expect these impacts to gradually fade in the months ahead. However, we now expect CPI inflation to only fall from 3.3% y/y in May to roughly 2.9% by December. Equally importantly, we expect inflation as measured by the personal consumption deflator to ease only slowly from 2.7% in April 2024 to 2.5% by the end of this year and reach the Fed's target of 2% in the middle of 2025.

Overall, the slowdown in growth and inflation has been delayed in 2024, somewhat frustrating Fed officials who expected a swifter moderation. However, with solid economic growth, low unemployment and most of the journey back to 2% inflation completed, the U.S. economy should continue to provide a rising tide to support most investment boats for the rest of this year and into 2025.

Assessing the market impact of the 2024 presidential election

After a stretch of strong investment returns, the 2024 presidential election adds an extra element of uncertainty for investors. The contest marks the first presidential rematch since 1956 and will come into greater focus this summer as campaigning heats up. However, while elections can garner a significant amount of attention in American life, their impact on investment outcomes is often much more muted. This is because it is policy, not politics, that matter for investment outcomes.

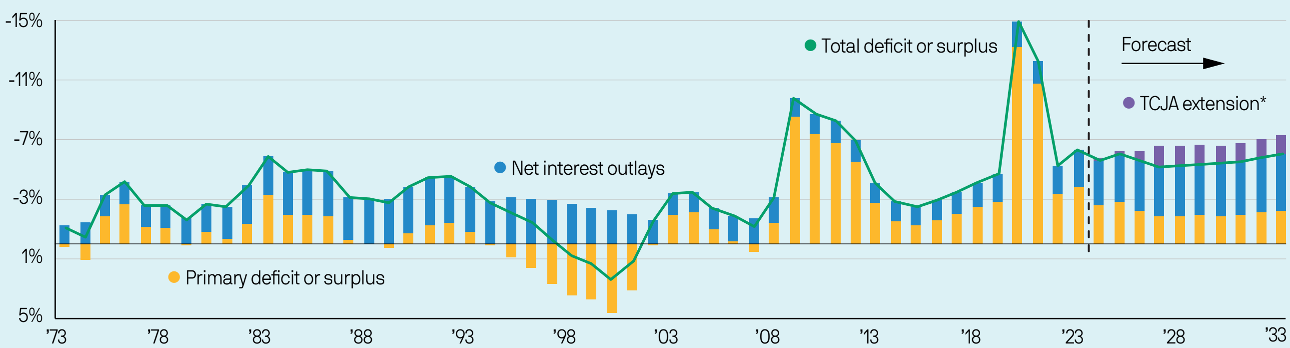
As such, which policy issues should investors be mindful of? First, taking center stage of the fiscal debate will be the decision of whether to extend tax cuts from the 2017 Tax Cuts and Jobs Act (TCJA). The challenge here is two-sided for both candidates: either extend the tax cuts and increase the debt or allow the tax cuts to expire and hurt growth. So far, Biden has proposed a partial extension of the tax cuts and expanded tax credits with potentially higher taxes on wealthy households and corporations. Whereas Trump has pledged to make the individual and estate tax cuts of the TCJA permanent, partially offset with spending cuts. Under either candidate, deficits are likely to widen (primarily due to rising interest costs) and discretionary spending is likely to be cut, creating a modest headwind for growth and some upside risk for yields.

Outside of taxes, immigration and U.S./China trade policy will also be key issues. In either outcome, immigration is set to slow after a period of significant border crossings boosted net immigration to an estimated 3.3 million in 2023.[1] Many economists believe this boost in labor supply has enabled the goldilocks combination of strong growth and declining wage inflation, with continued improvements expected as migrants are integrated into the workforce. New restrictive measures could limit this effect. On trade, both candidates have reflected a "tough on China" stance with renewed attention placed on tariffs. However, the secular trend of friend-shoring and diversification from China will likely continue and the effect of tariffs and supply chain realignment on inflation and U.S. profit margins has so far been muted.

The campaign season will surely see many bold promises to implement major change, but their translation to real policy change is hardly straightforward, and even less so to investment outcomes. Instead, economic context is the more powerful driver of market performance. As such, investors would do well to maintain a disciplined approach to investing, avoiding the pitfalls that could potentially derail portfolios from their long-term goals.

Under either election outcome, deficits will likely widen

Exhibit 1: Federal deficit and net interest outlays. % of GDP, 1973-2034, CBO Baseline Forecast



Source: CBO, J.P. Morgan Asset Management. Estimates are based on the Congressional Budget Office (CBO) February 2024 An Update to the Budget Outlook: 2024 to 2034. *Adjusted by JPMAM to include estimates from the CBO May 2023 report "Budgetary Outcomes Under Alternative Assumptions About Spending and Revenues" on the extension of TCJA provisions. Assumes the following provisions from the TCJA are extended: changes to individual income tax provisions, higher estate and gift tax exemptions, changes to the tax treatment of investment costs and maintaining certain business tax provisions going into effect in 2023. Guide to the Markets – U.S. Data are as of May 31, 2024.

[1] Brookings, "New immigration estimates help make sense of the pace of employment," March 7, 2024.

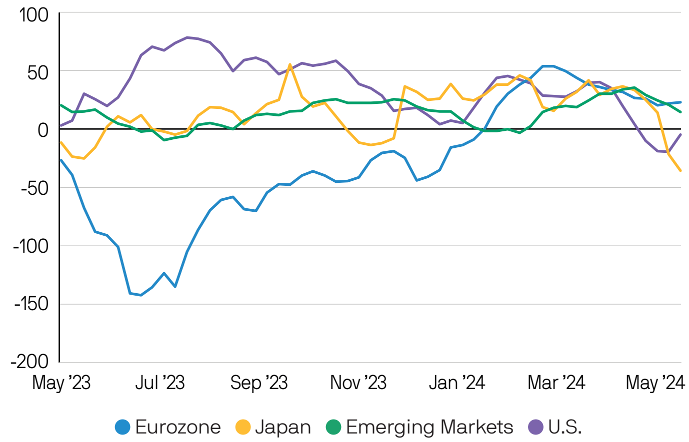
International economy: Growth convergence, but central bank divergence

Entering 2024, we expected continued resilience in the global economy, but with less divergence beneath the surface. Last year, the U.S., Japan and pockets of emerging markets (EM) excluding China surprised positively, while the eurozone, UK, Canada and China ended up disappointing. Consumers are at the heart of the story. While U.S. and Japanese consumer goods spending has surpassed pre-pandemic trends, this has not been the case in the eurozone, UK and China, with spending still 6%, 10% and 19% below trend, respectively. In Europe, the energy price shock unleashed by the war in Ukraine dampened consumer confidence and spending, while China's "Zero COVID Policy" and housing market slump left households cautious. Some of this divergence is now diminishing.

In the eurozone and UK, consumer confidence has been increasing consistently since October due to solid real income gains for households as inflation has finally decreased. This should power consumption moving forward. Additionally, the region is heavily exposed to manufacturing, which is now stabilizing, propelling Europe's composite PMIs higher by 6 points since last year's low. In China, the upturn in consumption should remain gradual given the continued weakness in the housing market. However, late last year's pro-growth turn by Chinese policymakers has continued into this year. Fiscal policy continues to support infrastructure and advanced manufacturing – and has turned more forcefully toward housing in May – which should stabilize China's growth rate at around 5%. Elsewhere in Asia, early signs of a global recovery in technology-related exports should benefit the big exporters, such as Korea and Taiwan. Lastly, India's strong growth momentum should continue, as the election outcome still implies continuity of major economic reforms. Encouragingly, economic surprises have turned positive in the eurozone and emerging markets while those in the U.S. have turned negative (**Exhibit 2**). This suggests that we may have passed peak optimism about the U.S. economy and peak pessimism about the rest of the world.

Expecting too much good news in the U.S. and bad news abroad

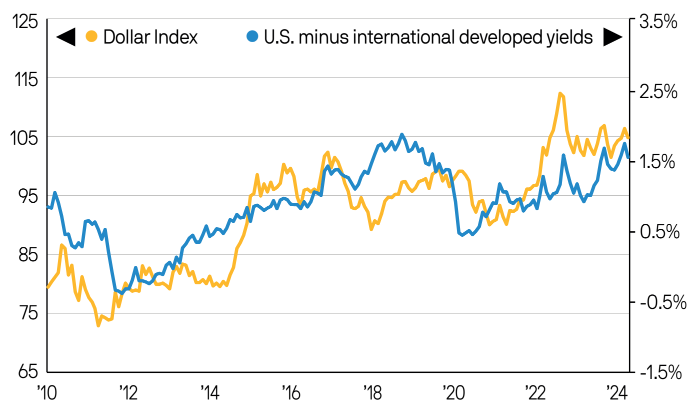
Exhibit 2: Citi Economic Surprise Index, weekly



Source: Citi, FactSet, J.P. Morgan Asset Management. Data are as of May 31, 2024.

The U.S. dollar should stay strong but may be topping out

Exhibit 3: DXY Index, U.S. and intl. dev. interest rate differentials, monthly



Source: Bank of Canada, FactSet, Federal Reserve Economic Data (FRED), Ministry of Finance of Japan, MSCI, OECD, Standard & Poor's, J.P. Morgan Asset Management. The dollar index (DXY Index) is a nominal trade-weighted index of major trading partners' currencies. Major currencies are the British pound, Canadian dollar, euro, Japanese yen, Swedish kroner and Swiss franc. DM is developed markets, and the yield is calculated as a GDP-weighted average of the 10-year government bond yields of Australia, Canada, France, Germany, Italy, Japan, Switzerland and the UK. Past performance is not a reliable indicator of current and future results. Data are as of May 31, 2024.

On the other hand, progress on disinflation has become more uneven, leading to divergent paths for central banks. Since December, year-over-year U.S. core inflation has moved down 30bps, compared to 80bps in the eurozone and 90bps in the UK. While expectations of Fed rate cuts have been pushed back and reduced, they have been pulled forward for the European Central Bank and the Bank of England – with European central banks now likely to cut rates first. For EM central banks, the delay in Fed cuts has led to slower or delayed rate-cutting cycles in response to currency pressure. Two important exceptions remain: China, continuing its stimulative monetary policy, and Japan, which finally embarked on a very gradual rate-hiking path.

Instead of decreasing, the U.S. rate differential with the rest of developed markets has increased again this year, by 16bps so far **(Exhibit 3)**. As a result, the U.S. dollar has not depreciated as expected. Going forward, stabilizing interest rate differentials and narrowing growth differentials may put a lid on the dollar, keeping it strong (but not stronger) for longer. The U.S. election is a risk, as tariff discussions heat up again, especially for currencies of major trading partners.

Supply chain relocations unlock opportunities for key beneficiaries

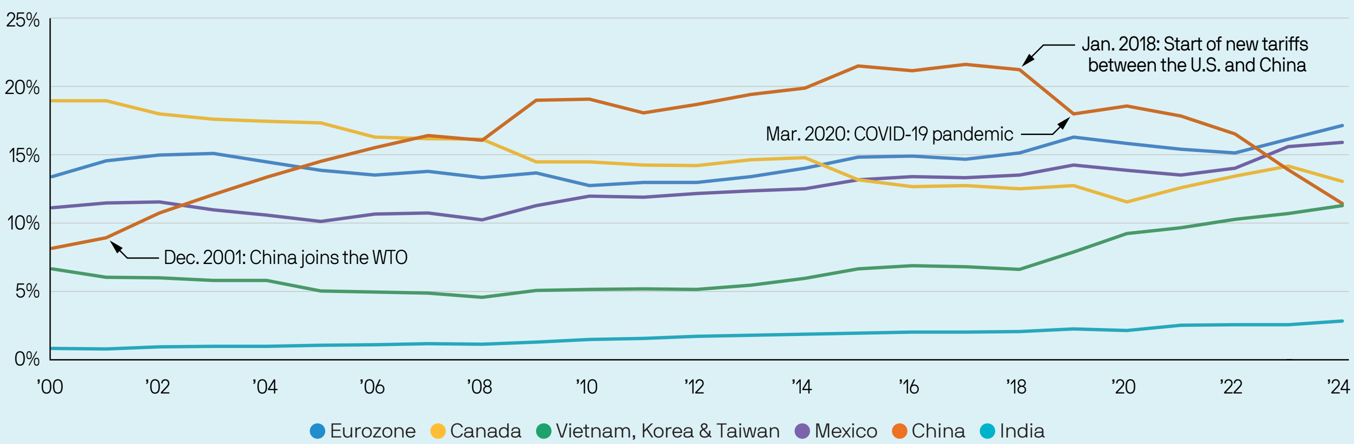
Disruptive events, such as COVID-19, ongoing trade tensions between the U.S. and China and elevated geopolitical risks, have brought supply chains into focus. Companies are now seeking to diversify their production locations, while nations are increasingly favoring trade with allies. The shift is already evident, with China losing its status as the U.S.'s top trade partner since the implementation of tariffs in 2018. China represented 22% of U.S. imports just five years ago but now accounts for only 12%.

Other countries have stepped in to fill the gap. Some Asian countries, such as India, Vietnam and Taiwan, are poised to benefit from friendshoring due to their cost competitiveness, integration in global supply chains, favorable industrial and corporate policies and rising middle-income consumer bases. Within Latin America, a key beneficiary of nearshoring has been Mexico, thanks to its existing manufacturing hubs and low wages.

While nearshoring is gaining momentum, it will take time, as China remains an important trade partner for most countries and is uniquely positioned in key industries. Nevertheless, as we transition to a multipolar world, investors can participate in this trend by further diversifying their equity exposure with a focus on the potential beneficiaries.

Key beneficiaries from supply chain shifts are ramping up imports to the U.S. and filling in the void left by China

Exhibit 4: U.S. goods imports by location, % of total imports, yearly



Source: FactSet, U.S. Census Bureau, J.P. Morgan Asset Management. WTO = World Trade Organization. Data are as of May 31, 2024.

Fixed income: A slow dance downward

After the strong performance from bonds to end 2023, it appeared the worst of the bond market rout was in the rearview. Inflation had fallen consistently since the middle of 2022, Fed Chairman Jerome Powell had hinted at the possibility of reducing interest rates this year, and while growth accelerated and unemployment remained low, leading indicators signaled moderation in 2024. However, inflation proved sticky and job growth remained robust to start the year, leading to a swift and dramatic repricing for fewer rate cuts, pushing long term interest rates higher **(Exhibit 5)**.

As markets repriced rate cuts, interest rate volatility remained elevated. While this backdrop of higher interest rate volatility and policy rate uncertainty has weighed on bond market performance this year, the adjustment higher in interest rates has dramatically improved the current income from owning U.S. Treasuries and other fixed income instruments like corporate bonds. Moreover, higher coupons should offset price losses if interest rates move modestly higher from here.

To be clear, we expect long-term interest rates as measured by the U.S. 10-year Treasury yield to stabilize between 4.00%-4.75% through the end of the year. Thereafter, we expect long rates to modestly decline to a range of 3.50%-4.00%, as the Fed gradually reduces interest rates, and growth and inflation trend to more normal levels.

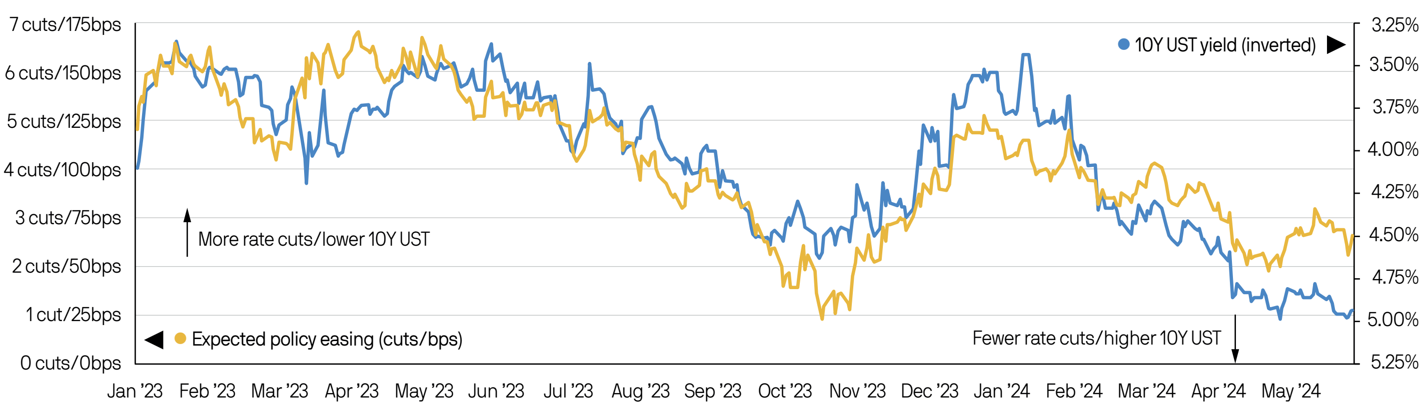
A few factors will likely contribute to this corridor for long-term rates in the near term:

Rate ceiling:

- Any upward pressure on rates should be limited given our expectation that year-over-year growth will moderate to 2% by the fourth quarter and real personal consumption deflator inflation should fall to 2% by the middle of 2025.
- The wind down of the Fed's quantitative tightening (QT) program suggest the Federal Reserve could become a net buyer of U.S. Treasuries by the end of the year, likely containing any meaningful move higher in rates.[2]

Shifting policy expectations have been tightly correlated with long rates

Exhibit 5: Federal funds futures, expected rate cuts in 2024, U.S. 10-year Treasury yield (inverted)



Source: Bloomberg, CME, J.P. Morgan Asset Management. Market expectations for policy easing are derived from federal funds futures contracts for December 2023 and 2024. Data are as of May 31, 2024.

[2] The committee announced it will reduce the cap on Treasuries maturing from $60bn to $25bn/mo. and maintain the $35bn cap on MBS paydowns beginning in June 2024. Using the 2019 QT experience as a guide, the committee could end QT in 4Q2024. If the Fed allows maturing mortgage-backed securities (MBS) to be reinvested into Treasuries, in order to keep the balance sheet level the Fed would become net buyers of Treasuries by the end of the year.

Rate floor:

- Long rates are likely to remain supported given the shallow path of rate reductions through 2026 and rising estimates of the perceived "neutral" policy rate or r-star[3] for the U.S. economy.
- Technical dynamics in the Treasury market, i.e. more Treasury bond supply given increased borrowing from the federal government, should also provide a floor on rates.

Turning to short-term rates, we anticipate the Fed will reduce rates 1-2 times by the end of the year and provide four more 25 basis point rate reductions in 2025. Thereafter, growth and inflation dynamics will largely dictate policy rates. Of course, should a recession occur, the Fed will likely respond by cutting rates aggressively, but likely not to zero like in the last cycle.

Investing during inversions

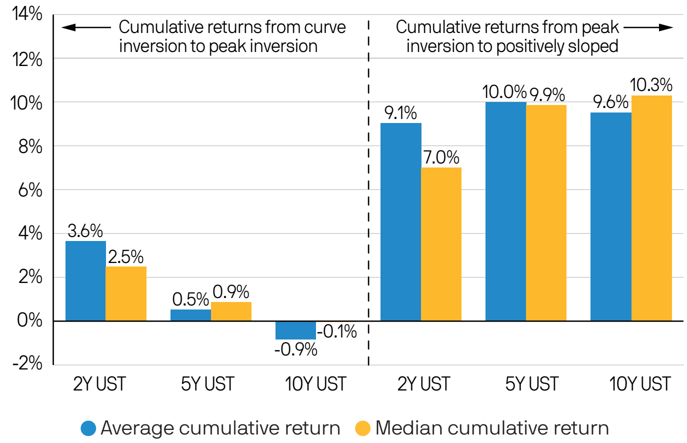
The yield curve has confounded many economists and market participants. A once reliable indicator of recession—specifically an inverted yield curve where short-term rates are higher than long-term rates—has potentially presented a false positive signal; while it has been inverted for almost two years, the economy has not fallen into recession.

That said, our rate forecasts suggest that while the curve could be positively sloped by the end of 2025 it is likely to remain inverted at least through the end of this year. Given this, investors should consider how bonds have performed under previous inversion cycles.

As shown in **Exhibit 6**, the initial inversion and further flattening driven by policy tightening creates a difficult backdrop for bonds, but generally maintaining a shorter duration posture is most suitable. Thereafter, as a combination of looser policy and/or slowing growth and inflation allows the curve to steepen, gradually extending duration has best served investors. That said, the shallow path for rate cuts driven by normalizing growth and inflation suggests investors may be best suited embracing a barbell approach by generating still attractive yields at the front end, while owning some duration as a portfolio hedge.

Curve inversions are challenging for bond returns, but as the curve steepens to positively sloped, duration tends to perform a bit better

Exhibit 6: Difference between the U.S. 10 year Treasury yield and the U.S. 2 year Treasury yield



Source: FactSet, Federal Reserve, Haver Analytics, J.P. Morgan Asset Management. Analysis includes seven yield curve inversion episodes since 1968. It does not include the current inversion period. *From January 1962 to May 1976, short-term bond is U.S. 1-year note, and from June 1976 onwards the short-term bond is the 2-year note due to lack of data availability. Returns are total returns. As of June 2024, the yield curve has been inverted for 23 full months without a recession. Data are as of May 31, 2024.

Barring an idiosyncratic shock or deterioration in economic conditions and labor markets, our base case view of moderating growth and gradually cooling inflation suggests that investors who continue to hold excess cash should begin deploying capital further out on the curve. Moreover, under this benign economic backdrop, credit spreads across investment grade and high yield could remain tight, particularly given low default rates and attractive all-in yields keeping credit markets supported. Overall, as the Fed eventually begins reducing rates, core high-quality intermediate bonds should prove to be an equity diversifier and ballast in client portfolios once again.

[3] R-star is considered the federal funds target rate range that is neither accommodative nor restrictive on economic activity over the long run.

U.S. equities: An extended, more inclusive bull market

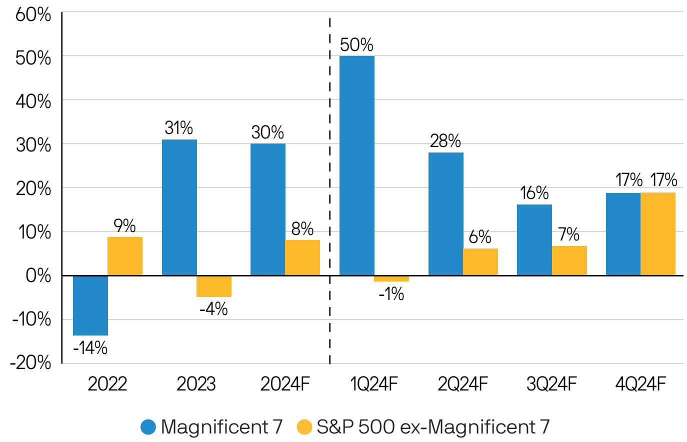
Equity markets have had a strong start to the year, shrugging off a hawkish repricing in monetary policy expectations and a 5% pullback in April to set 25 new all-time highs. In contrast to last year, market strength has been accompanied by breadth, as solid economic fundamentals have supported a broader earnings recovery and improved investor sentiment. Looking ahead, return expectations should be more modest, but healthy earnings growth and wide valuation dispersion suggest the environment remains positive for equity performance with opportunities for alpha generation.

Corporate America had a strong showing in the first quarter earnings season, posting 5% year-over-year EPS growth with wide participation in earnings surprises. Among the sectors, consumer discretionary, communication services and technology drove the biggest overall gains and most companies within the "Magnificent 7" continued to dominate. Notably, the first quarter should also mark a low point for the year, with every other quarter on track to deliver both sequential and annual growth. If this trend persists, all 11 S&P 500 sectors could see earnings grow on a year-over-year basis by the fourth quarter, a feat that has not been achieved since the second quarter of 2021. Much of this strength owes to success in defending margins (12.4% in 1Q24), with the combination of stronger-than-expected economic growth and easing labor pressures allowing corporates to retain pricing power.

Strong earnings have also helped fuel a return of buybacks. Whereas last year many companies slowed debt issuance amid an uncertain outlook for rates, this year issuance has rebounded, allowing for a renewed wave of buyback announcements. Some estimates suggest buybacks could reach $1 trillion for the year, a +13% annual gain, led by many of the mega-cap tech names. Many of these same companies are also investing heavily into AI. Consensus expects the five major AI "hyperscalers"[4] to spend nearly $200 billion on capex this year (**Exhibit 8**), corresponding to +36% year-over-year and over 8x growth in the last decade, while S&P 500 capex more broadly accelerated at an estimated 9% year-over-year pace in the first quarter.

A broadening out in earnings growth is underway

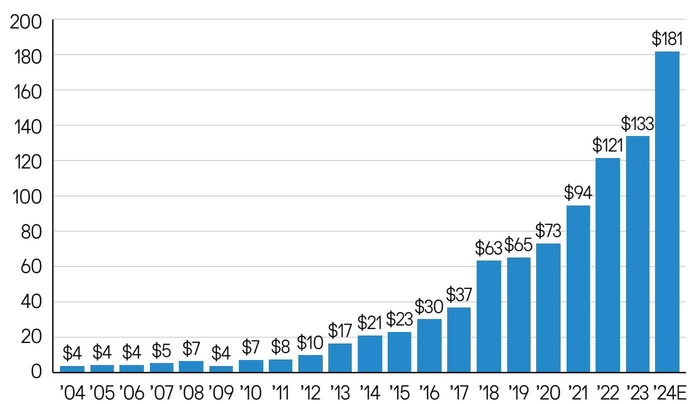
Exhibit 7: Earnings growth



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. *Magnificent 7 includes AAPL, AMZN, GOOG, GOOGL, META, MSFT, NVDA and TSLA. Earnings estimates for 2024 are forecasts based on consensus analyst expectations. Guide to the Markets – U.S. Data are as of May 31, 2024.

Capex has ramped up quickly and is expected to continue

Exhibit 8: Capex from the "Hyperscalers" – Microsoft, Meta, Amazon (AWS), Oracle and Alphabet, USD billions



Source: Bloomberg, J.P. Morgan Asset Management. Figures include estimates from the J.P. Morgan U.S. Growth investment team. Capex for Amazon (AWS) is estimated by excluding logistics and other non-AWS tech investments, while total capex is shown for Microsoft, Meta, Oracle and Alphabet. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated. Data are as of May 31, 2024.

[4] Hyperscalers refers to large tech companies that own and operate AI data centers, providing scalable cloud and storage resources required to run generative AI tools. The major five companies referenced are Amazon (AWS), Microsoft (Azure), Meta, Oracle and Alphabet (Google Cloud).

Solid growth and a renewed focus on shareholder return provide a further layer of support beneath the bull market, but at 20x forward P/E, the market isn't cheap. Consensus earnings expectations for the year currently point to 11% growth, but our top-down earnings model suggests headwinds from a stronger U.S. dollar and slowing nominal growth could lead growth to undershoot those expectations. Profit margins have so far been resilient, but if growth were to slow more materially, firms' pricing power would come under greater pressure. Finally, while the emphasis on AI may be justified, the concentration of returns amongst a few AI leaders suggests some vulnerability for markets as adoption speeds are still highly uncertain and sentiment has been ebullient.

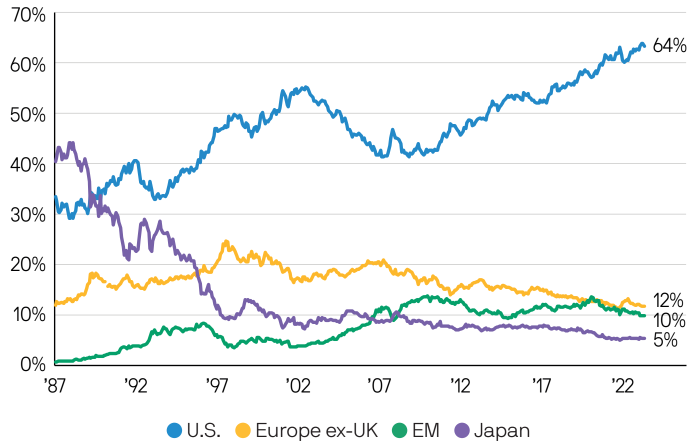
Overall, despite recent strong equity performance, the end of monetary tightening combined with strong nominal GDP growth provide a constructive backdrop for U.S. equities over the remainder of the year. We continue to favor quality across asset classes, leading us to prefer large and mid caps over small caps, a balance of both value and growth and an emphasis on stock selection to identify the attractive companies with resilient profits, solid balance sheets and favorable relative valuations.

International equities: The rest of the world's comeback

For over a year, financial commentators have frequently discussed the concentration of U.S. equities in just seven names, but rarely the extreme concentration of global equities in the U.S. Never has the U.S. share of global equities been this large at 64% (**Exhibit 9**). Recent trends suggest that upward trend has run its course – and the rest of the world is starting to catch up. Over the past two years, performance in international equity markets has been strong, especially in Europe, Japan and EM excluding China. The contribution to returns has been healthy, with equal heavy lifting being done by multiple expansion, earnings growth and dividends. The one sore spot, especially this year, has been the currency drag. In 2024, pockets of strong performance have continued, with Chinese equities joining the rebound. Beyond the regional view, single stock performance has been particularly strong, with 74% of the 50 best-performing companies being listed overseas (**Exhibit 10**).

U.S. concentration in global equity indices has never been so extreme

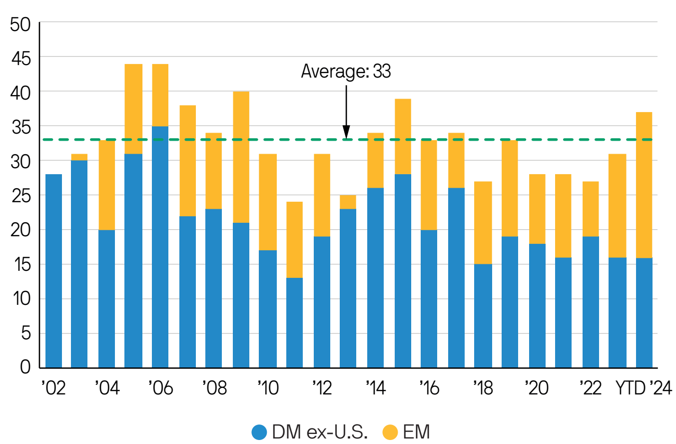
Exhibit 9: % weight in the MSCI All Country World Index, USD, monthly



Source: FactSet, MSCI, J.P. Morgan Asset Management. Countries are represented by their respective MSCI index. Data are as of May 31, 2024.

On any given year, about 33 of the 50 best performing companies are listed abroad

Exhibit 10: Top 50 performing companies globally, # of companies listed internationally, MSCI All Country World Index



Source: MSCI, J.P. Morgan Asset Management. Graph was made by ranking all the companies in the MSCI All Country World Index by performance on a yearly basis and determining the top 50 performers using their total return in USD. Companies are listed in no particular order. Excluded companies whose market capitalization does not make up at least 0.01% of the MSCI All Country World Index in the year listed. Data are as of May 31, 2024.

Going forward, multiple expansion can still provide some support, especially compared to the U.S. (with double the normal discount to the U.S. at 34%). Importantly, on a sector-by-sector basis, the discount for quality companies listed overseas versus in the U.S. persists. This abnormally large discount is no longer warranted for international developed markets given substantial macro- and microeconomic changes, such as the return of inflation and positive rates, end of fiscal austerity and addition of buybacks to the already healthy dividend yields these companies have traditionally paid. In Europe, the turn in economic sentiment and manufacturing activity should support earnings and performance ahead. In Japan, corporate governance reform momentum should generate additional multiple expansion – a once-in-a-generation re-rating opportunity for investors. The Value style will likely continue to lead returns in Europe and Japan, as they often do during environments when Treasury yields hover between 3% and 5%. Lastly, the worst of the currency drag (especially in Japan) should be behind us – but is unlikely to turn into a substantial boost to U.S. dollar-based returns just yet.

In emerging markets, unsurprisingly China has been leading, due to depressed valuations, sentiment and positioning going into the year. The better economic momentum in parts of the economy, combined with more fiscal policy easing, should continue to result in a tactical rebound for a bit longer driven by multiple expansion. However, for Chinese equities to break out of their multi-year range, investors need to be significantly more confident in a domestic demand recovery – which seems unlikely this year, given limited demand-side stimulus and rising geopolitical tensions going into the U.S. election. As a result, we expect other EM markets to take back the baton as the year progresses, especially other EM Asian markets. For Korea and Taiwan, the turn in the electronics cycle, coupled with the AI-generated boost in semiconductors, should continue to generate strong earnings growth and market returns. In addition, Indian equities should regain their footing once the uncertainty about the election passes and as the tactical rebound in China loses steam, given strong earnings growth fueled by robust economic momentum.

Investors have already started to notice the improved performance overseas, with international equity exposure in global equity portfolios at a 12-month high*. However, this comes from a very low starting point. As always with international, there is a lot more opportunity than meets the eye, and with valuation spreads near record highs, active managers have a chance to uncover it.

*Based on advisor portfolios analyzed by the J.P. Morgan Asset Management Portfolio Insights team.

Alternatives: Embracing the alternative advantage

The first half of 2024 exposed the difficulties of creating a stable portfolio using just routine allocations to traditional assets. In an uncertain investing environment in which inflation protection, stable income and outsized returns are difficult to source from public markets, alternatives look increasingly attractive.

After a steady wave of disinflation in 2023, more persistent price pressures this year underscore the risks of structurally higher inflation. As noted in our 2024 Outlook, real estate tends to act as an inflation hedge since higher costs can be passed on through higher rents. However, opportunities here extend beyond just inflation protection. Outside of office, other segments of commercial real estate are seeing renewed fundamental tailwinds. Limited home affordability and favorable demand dynamics, such as low unemployment, solid wage growth and immigration, should bolster the already solid renter base for multi-family. Meanwhile, specialized sectors, such as industrials, that are well positioned for a post-pandemic world should see strong demand.

Thanks to worries about reaccelerating inflation, stocks and bonds remained positively correlated. In a world where traditional markets have shown an increased propensity to move together, hedge funds can offer a solution. Hedge fund returns tend to benefit from higher short-term interest rates and elevated volatility; against the backdrop of a longer-than-expected Fed pause, this dynamic, along with their ability to go short, should provide both diversification and return.

Bonds proved once again that they can be unpredictable during periods of heightened inflation uncertainty. That said, transportation and infrastructure assets have established strong track records of dependable income and low volatility, allowing both asset classes to satisfy the need for stability within portfolios.

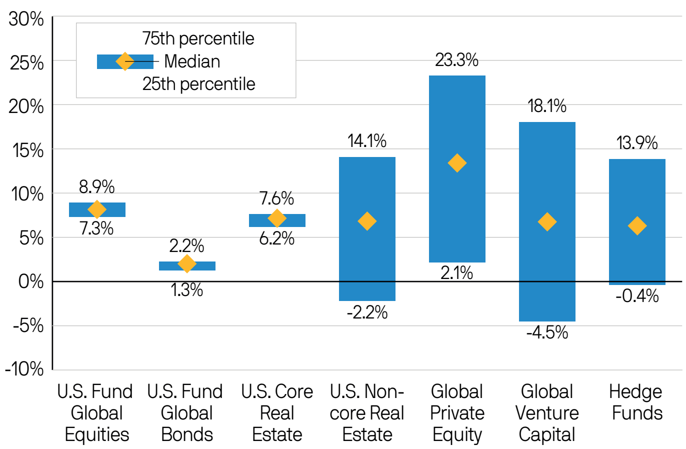
Against a backdrop of elevated public equity valuations and still-low yields relative to history, private markets can help generate outsized capital appreciation and income. Within private equity, middle market companies that derive the bulk of their returns from value creation instead of financial leverage should do well despite higher-for-longer rates. Private credit can offer attractive yields, although a pick-up in amend-and-extend activity and defaults call for a focus on quality.

As traditional private market exit activity remains subdued, opportunities in the secondary market can give investors exposure to seasoned assets at discounted valuations.

In a lagged reflection of public markets, repricing across private markets is still underway, but some sectors are moving faster than others. Prospects in real estate look brighter. Office remains an issue, but valuations in other segments are stabilizing, and managers with available liquidity can acquire quality assets at attractive prices. After valuations came down in 2023, private equity purchase price multiples retraced higher in early 2024 and are holding up well. However, a rebound in exit activity may force sellers to realize lower multiples. The rerating in private credit is still in its early stages, although rising default risk and the increased likelihood of higher-for-longer interest rates suggest that a more marked adjustment may be forthcoming.

Manager selection is critical in alternatives

Exhibit 11: Public and private manager dispersion. Based on returns over a 10-year window*



Source: Source: Burgiss, J.P. Morgan Asset Management, Morningstar, NCREIF, PivotalPath. Global equities and global bonds are based on the world large stock and world bond categories, respectively. *Manager dispersion is based on annual returns over a 10-year period ending 1Q24 for Hedge Funds, U.S. Core Real Estate, U.S. Fund Global Equities and U.S. Fund Global Bonds. Non-core Real Estate, Global Private Equity and Global Venture Capital are represented by the 10-year horizon internal rate of return (IRR) ending 4Q23. U.S. Fund Global Equities and Bonds are comprised of U.S.-domiciled mutual funds and ETFs. Data are based on availability as of May 31, 2024.

Nonetheless, there are plenty of attractive opportunities waiting for investors across the alternatives landscape. Much like an investor should focus on finding high-quality assets, asset allocators should strive to invest in high-quality managers. Indeed, manager dispersion is particularly wide in private markets, making investing with a good manager a key element of the allocation process **(Exhibit 11).**

Asset allocation: (Continue to) expect the unexpected

After a year of surprises, wise investors entered 2024 expecting the unexpected. Now, almost halfway through the year, this approach to investing is still relevant.

For many, the U.S. economy continues to surprise. Despite tighter lending standards, higher prices, elevated borrowing costs and a dwindling supply of eligible workers, employment and consumption data remain strong and inflation persistently sticky at higher-than-expected levels. Even with the slowdown in the first quarter, a recession is still unlikely through the rest of the year.

This economic optimism comes despite myriad challenges to the "peak rates" narrative at the start of the year, with a combination of central bank speak and hot economic data forcing markets to accept that "higher for longer" will be around a bit longer than initially thought. Still, the hurdle for the Fed to raise rates from here is significant, and the bias toward cutting in 2024 is still evident. A lower federal funds rate will have broad – and generally positive – implications across capital markets and economies, both in the U.S. and around the world. Nonetheless, a busy year for global politics has the potential to inject temporary volatility.

In other words, investing remains a challenge, and asset allocation must reflect the inherent uncertainty of a world very clearly in flux.

Given the changing outlook for interest rates this year, bond investors should embrace shorter duration instruments, gradually extending duration while having confidence that attractive coupons will act as a "cushion" in portfolios if the rate view unexpectedly changes further. They should also shore up quality, which should prove to be an effective portfolio ballast, to account for tighter-than-expected credit spreads and protect against unpredicted economic risk.

From an equity perspective, the first quarter U.S. earnings season was likely a window into the rest of the year: strong profit growth with broad participation in earnings surprises. Even so, the market is modestly rich and earnings expectations are likely too aggressive. As a result, a bias toward active management and quality, balanced between growth and value and skewed toward larger names, remains prudent. Outside the U.S., discounted markets should allow for multiple expansion to support performance, and the significant currency drag should abate, especially as the Fed looks to ease through the back half of the year.

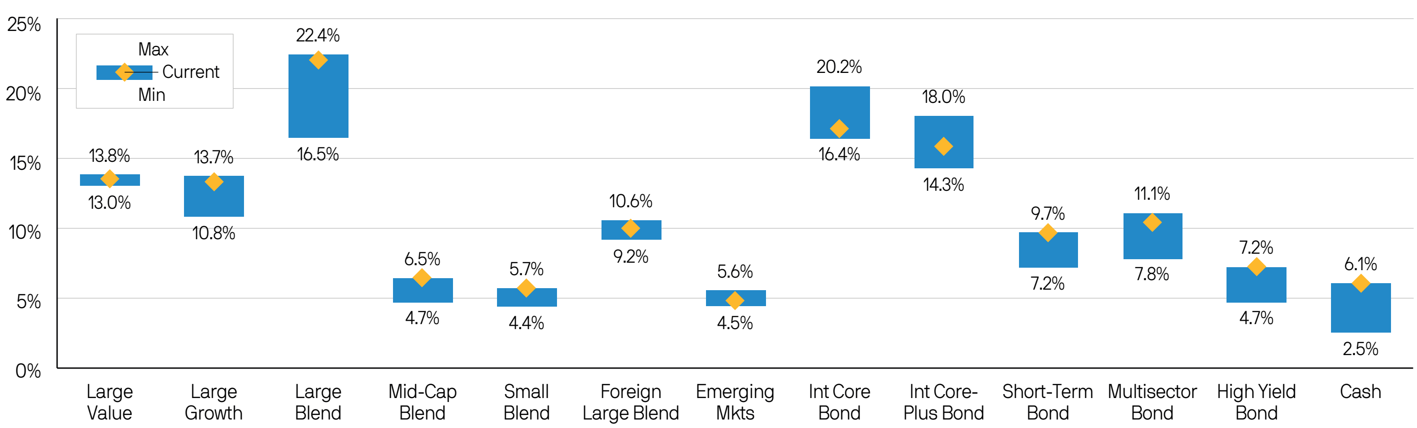
This backdrop is also supportive of alternative assets. Infrastructure investments can dampen portfolio volatility, particularly with a renewed interest in expansive industrial policy; real estate can protect against structurally higher inflation and prospects have improved; and private equity and hedge funds can thrive if the beta trade weakens. Against this, however, investors should recognize that a repricing in private markets is still underway, underscoring the need for careful manager selection.

Looking at portfolio positioning, this outlook has only partially been implemented. Within fixed income, appetite for higher-quality, extended-duration bonds has increased since the start of the year. Within equities, growth investing is back in vogue, likely a reflection of investors chasing momentum given this year's surprise rally; this has somewhat unwound the shift toward value that had occurred earlier in 2023 and has driven up duration in stock allocations. Meanwhile, interest in non-U.S. stocks has increased since the beginning of the year, albeit mostly through passive vehicles, with investor allocations trending higher than the historical average despite a hazy geopolitical horizon. Finally, investors are still broadly overweight cash, a continued weight on returns this year, as had been the case in 2023.

All told, the investing landscape remains volatile. Investors would therefore do well to diversify and lean on active management, stepping out of cash and into risk assets to take advantage of the anticipated changes ahead.

Investors are fairly well positioned to take advantage of market opportunities

Exhibit 12: Average allocations in moderate models, last 12 months



Source: J.P. Morgan Asset Management. "Moderate models" are defined as a 60% stock/40% bond portfolio. Note average allocations will not sum to 100 as not all categories are represented in each portfolio analyzed. Data are as of May 31, 2024.

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Index Definitions

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The **Composite PMI future output index** is a gauge of economic growth and can provide valuable insights into GDP, service sector growth and industrial production trends well ahead of official data.

The **Bloomberg Euro Aggregate Corporate Index** is a benchmark that measures the corporate component of the Euro Aggregate Index. It includes investment grade, euro-denominated, fixed-rate securities.

The **Bloomberg Pan-European High Yield Index** measures the market of non-investment grade, fixed-rate corporate bonds denominated in the following currencies: euro, pounds sterling, Danish krone, Norwegian krone, Swedish krona, and Swiss franc. Inclusion is based on the currency of issue, and not the domicile of the issuer. The index excludes emerging market debt.

The **Bloomberg U.S. Aggregate Treasury Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar denominated, fixed-rate taxable bond market. This includes Treasuries, government-related and corporate securities, mortgage-backed securities, asset-backed securities and collateralized mortgage-backed securities.

The **ICE BofA MOVE Index** tracks fixed income market volatility.

The **J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified (CEMBI Broad Diversified)** is an expansion of the J.P. Morgan Corporate Emerging Markets Bond Index (CEMBI). The CEMBI is a market capitalization weighted index consisting of U.S. dollar denominated emerging market corporate bonds.

The **J.P. Morgan Emerging Markets Bond Index Global Diversified (EMBI Global Diversified)** tracks total returns for U.S. dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The index limits the exposure of some of the larger countries.

The **J.P. Morgan GBI EM Global Diversified** tracks the performance of local currency debt issued by emerging market governments, whose debt is accessible by most of the international investor base.

The **J.P. Morgan Leveraged Loan Index** is designed to mirror the investable universe of U.S. leveraged loans.

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The **MSCI Pacific Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the Pacific region.

The **MSCI World with USA Gross Index** measures the performance of the large and mid-cap segments across 23 Developed Markets (DM) countries. With 1,540 constituents, the index covers approximately 85% of the global investable equity opportunity set.

The **Russell 1000 Index®** measures the performance of the 1,000 largest companies in the Russell 3000.

The **Russell 1000 Value Index®** measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The **U.S. Treasury Index** is a component of the U.S. Government index.

J.P. Morgan Asset Management

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LEITBOX STORAGE PARTNERS

Leitbox Storage Partners

We Do Storage Differently

Unpacking the Realities – The Nuanced Truth of Investing in Self Storage

In 2016, our firm, Leitbox Storage Partners made a wholesale pivot out of shopping center development into self-storage. In our minds, the demographic trade winds were clear and powerful. Urbanization was in full force; high renter-ship rates were trending up, and job relocations seemed quite frequent. Then Covid enters and an accelerant pours into the self-storage tank. "America on the Move" and work-from-home were two primary drivers to self-storage renter demand. The industry hit all-time highs in occupancies and a wave of new institutional investment came crashing to shore. These factors have resulted in ever increasing popularity for investing in self-storage. The sector is often touted as a recession-resistant asset class with stable occupancies, steady cash flow, and a low appetite for capital. However, like any real estate investment, it comes with its own set of complexities and risks. In this mid-year outlook, our team at Leitbox unpacks the nuanced truths of operating and investing in self-storage. We often get questions from our retail clients – "what truly triggers a need for self-storage" So, we created the Top Seven Surprising Reasons self-storage continues to possibly be the little engine that could.
Here some fun facts to help explain:

1) <u>PROBATE</u>: Probating a will lasts between six and twelve (12) months on average. In some states, such as California, probate can often span eighteen (18) months. Where to store those family heirlooms, trophies, ancient board games, and the annual Ugly Christmas Sweaters during this time?

2) <u>11 MILLION COPIES</u>: Marie Kondo wrote the "Life Changing Magic of Tidying Up." She's published three more books and has a TV show. Seems her minimalist lifestyle has millions of followers. Tidying up is easy; throwing something away is the hard part! Queue self-storage!

3) <u>6,400 POUNDS</u>: The average family creates 6,400 pounds of garbage each year. If you do some cubic yard math and assume your cans are 4 ft high, that's 144 Square Feet, much larger than the average 10X10 storage unit. Are we really making room for our garbage by renting a storage unit? Maybe so!

4) <u>55 SQUARE FEET</u>: The average two Bedroom apartment in the southeast has a master bedroom closet, guest bedroom closet, and a hall closet. The total square footage ranges typically between 55 and 100 Square Feet. Not a lot of elbow room for that mountain bike. Storage anyone?

5) <u>CUSTOM CLOSETS</u>: Functionality of closets has made them a prize possession. There's simply no room for shelving large toys, Christmas decorations, or treasured youth league football helmets and jerseys!

6) <u>GARAGE PENETRATION</u>: According to the US Census, approximately 50% of the population growth in the United States originated from Florida and Texas. Hard to believe. Yet only 56% of homes in the South have garages. Something has got to give!

7) <u>UNPACKING MY STORAGE UNIT</u>: While the hassle of moving belongings out can be painful, arduous, and ruin a great Saturday, the question really is what is the opportunity cost? If the average self-storage unit rents for approximately $165 for a 10X10 unit nationally (according to Yardi), what is the price to rid your family of those belongings. While prices vary by geography, if you rent a Waste Management haul-off container basket, after delivery and pick up, special fees for unique items like computers, and overage chargers, a $700-$1,200 bill is quite viable. Most folks will just pay to keep their storage unit.

In many ways, self-storage is a commodity product that touches many of us during life. As the product is commodity based, how do you differentiate a facility? That's become a function of location with convenience and efficiency, almost identical to a retailer's site selection process. The second driver of differentiation is quality and security. Most of the multi-story Class A assets offer secured gates, three-gated key fobs, and 36 video cameras and motion detectors. These facilities are truly secure.

Overall, the industry is impacted by the residential sector slow down due to the high increase in interest rates over the last two years. However, occupancies remain high. At Leitbox, we have experienced 10%+ rate growth, but the larger REITs are mostly flat to negative. We remain committed to a niche strategy! The power of existing customer rent increase ("ECRI") remains an evolving and powerful strategy. We are seeing some stores with 30%-40% ECRI bumps to an existing rental rate. As mentioned above, many will stay put and just pay the increase, like how many of us treat our cable bills!

So, what does the future of self-storage hold for an investor? Self-storage has proven itself resilient and therefore we are seeing large scale institutional investors change real estate allocations and make room for self-storage. This is adding a newer category of dry powder entering the space, and the increments are sizable. With inflation themes more prevalent than the news seems to share, a question will be whether the customer can justify the expense of self-storage; during the Great Financial Recession, the industry enjoyed growth as individuals were willing to lose houses, but not their belongings. For Leitbox, we are not as penalized by consumer weakness. We are developing in markets like Palm Beach, FL, Nashville, TN, Bloomfield Hills, MI, so our customer is more resilient. It remains to be seen, if the consumer will change their behavior or if history will repeat itself. All things being equal, for any investor, self-storage needs to be a strong candidate for consideration. Our properties break-even at 50% occupancy, the properties require minimal capital for upkeep, the tenant mix is highly diversified, and now, with remote / unmanned management, expense margins are improving.

Self-storage offers an attractive risk reward spectrum that can clearly outcompete the other core or alternative asset classes.

- Bill Leitner, CEO & Founder

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How Bonus Depreciation can be a Timely Tool in Real Estate Deals

While real estate is typically viewed as an appreciating asset in the eyes of investors, from a tax perspective, the components of the building are depreciating assets that are eligible for tax write-offs over their useful life.

The Tax Cuts and Jobs Act ("TCJA") of 2017 changed/enhanced a number of tax items that affect businesses in an effort to promote investment and stimulate the economy.

One such area that is particularly beneficial to real estate investors is accelerated or "bonus" depreciation which allows businesses to immediately deduct a larger percentage of the purchase price of "qualified property" rather than stretching out the deductions over the useful life of the asset.

What counts as **"qualified property"?**

Typically, real estate investors looking to defer income taxes have relied on Section 1031 Exchanges (and in recent years, QOZ funds) to defer recognizing gains. However, bonus depreciation has become a contender that more real estate investors are opting into.

But not all investable real estate qualifies for bonus depreciation. That is because bonus depreciation can only be applied to a business's assets that:

01 Are eligible for depreciation under the modified accelerated cost recovery system ("MACRS")

02 Have a MACRS recovery period of 20 years or less

A great example of qualifying properties captured within the TCJA are gas stations/convenience stores and car washes. By purchasing a qualified real estate asset, the investor is generally eligible for significant bonus depreciation on the entire purchase price of the asset, as well as MACRS depreciation on the remaining asset basis.

This means that not only can the entire structure, including the retail building, be depreciated over a 15-year straight-line period, but certain specific assets integral to the operation of a gas station can also follow this accelerated depreciation schedule. This includes the underground fuel storage tanks, pump islands, canopy, special electrical for pump operation and signage.

When the investor has held the asset long enough, the sale proceeds may even be used to purchase a DST or other real property in a Section 1031 exchange, thus further deferring the recognition of gain.

Cost segregation study **is key**

By completing a cost segregation study, net lease gas stations, convenience stores or cash washes can take the maximum allowable bonus depreciation in the first year a property is placed into service.

- Fully deducting these costs can create a tremendous benefit since it can allow owners to create a tax loss (thereby eliminating taxes owed).
- Any tax losses not used in the current year can be carried forward.
- The write-off can be taken against active or passive income.
- For passive real estate investors in a syndicated fund, the federal tax write-offs from depreciation pass through to members (aka passive losses). Passive losses can offset the passive income the invested asset generated, but can also offset passive income and passive gains generated by other assets in an investor's portfolio.

Net tax example using bonus depreciation: **$150,000 investment**

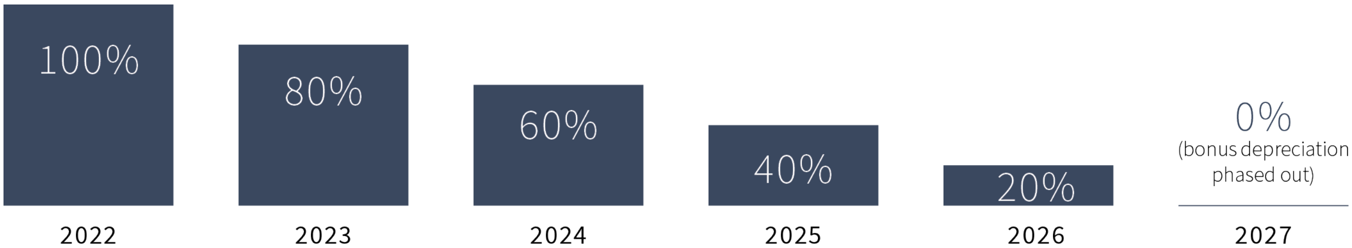
	NO NET LEASE INVESTMENT	WITH NET LEAST INVESTMENT
GROSS INCOME	$750,000	$750,000
NET LEASE FUND INVESTMENT	$0	$150,000
WRITE OFF GENERATED	$0	$228,857
ADJUSTED GROSS INCOME	$750,000	$521,143
TAXES DUE	$337,500	$234,514
TAXES ELIMINATED	$0	$102,986
TOTAL YEARS 2-10 TAX WRITE OFFS	$0	$87,900
TOTAL DISTRIBUTIONS YEARS 1-10	$0	$67,500

Time is of the essence with **bonus depreciation**

Like all good things, bonus depreciation will eventually come to an end.

When first introduced, the TCJA provided for immediate depreciation of 100% of the cost of qualified property placed in service before January 1, 2023, but we are now in the phase-out schedule for bonus depreciation of 20% annually until it is completely phased out by 2027 (absent Congress agreeing on a legislative extension of the tax benefit.)

BONUS DEPRECIATION PHASE OUT



XA
INVESTMENTS

XA Investments Interval and Tender Offer Fund Mid-Year 2024 Market Update

XA INVESTMENTS

New Product Trend: Infrastructure-Focused Non-listed CEFs

- The number of infrastructure-focused interval and tender offer funds continues to grow.
- Currently, there are 6 active infrastructure-focused interval / tender offer funds, and an additional 5 in the SEC registration process.
- This trend has been accelerating with 3 of those 5 funds filing their initial registration statements in June.
- All of these infrastructure-focused interval / tender offer funds have launched or filed within the past two years.

Infrastructure Interval and Tender Offer Funds in Registration

#	Fund Name	Structure	Adviser	Filing Date
1	Russell Investments New Economy Infrastructure Fund	Interval	Russell Investments	6/21/2024
2	Macquarie Energy Transition Infrastructure Fund	Tender Offer	Central Park Advisers	6/17/2024
3	Hamilton Lane Private Infrastructure Fund	Tender Offer	Hamilton Lane	6/6/2024
4	Aether Infrastructure & Natural Resources Fund	Interval	Aether	2/28/2024
5	CION Grosvenor Infrastructure Fund	Interval	CION Grosvenor	11/22/2023

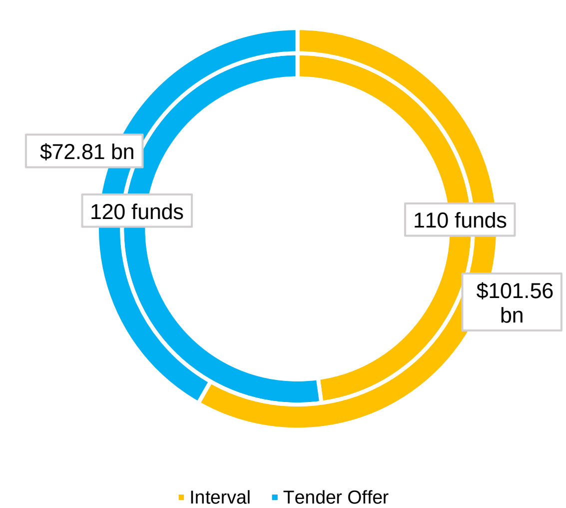
Operational Infrastructure Interval and Tender Offer Funds

#	Fund Name	Structure	Sponsor	Inception Date	Total Managed Assets[1]
1	Brookfield Infrastructure Income Fund Inc.	Tender Offer	Brookfield	11/1/2023	$2,489[2]
2	StepStone Private Infrastructure Fund	Interval	StepStone	9/11/2023	$158
3	Partners Group Next Generation Infrastructure, LLC	Tender Offer	Partners Group	8/1/2023	$61
4	Cantor Fitzgerald Infrastructure Fund	Interval	Cantor Fitzgerald	6/30/2022	$151
5	Versus Capital Infrastructure Income Fund	Interval	Versus Capital	4/1/2024	$120
6	Meketa Infrastructure Fund	Interval	Meketa	1/29/2024	$21

1. Total Managed Assets are the most recent publicly available sourced through CEFData.com or sponsor websites. Data as of 6/30/2024 or latest publicly available.
2. The Brookfield Infrastructure Income Fund Inc. raised initial capital from an affiliated Luxembourg fund invested in private infrastructure. On November 1, 2023, the Luxembourg fund was reorganized into the Fund contributing net assets valued at $1,548,637,987.

Current Non-listed CEF Total Managed Assets

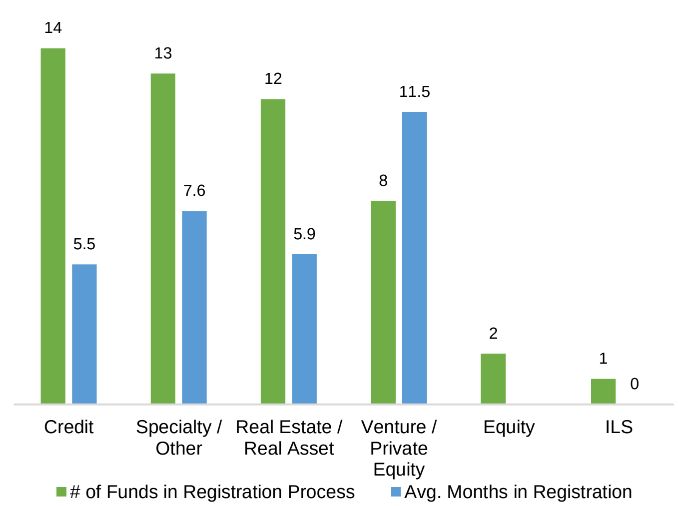
Non-Listed CEF Market: 230 Funds with $174bn



Features the latest publicly available data as of 6/30/2024. Outer circle represents total managed assets. Inner circle represents number of funds.

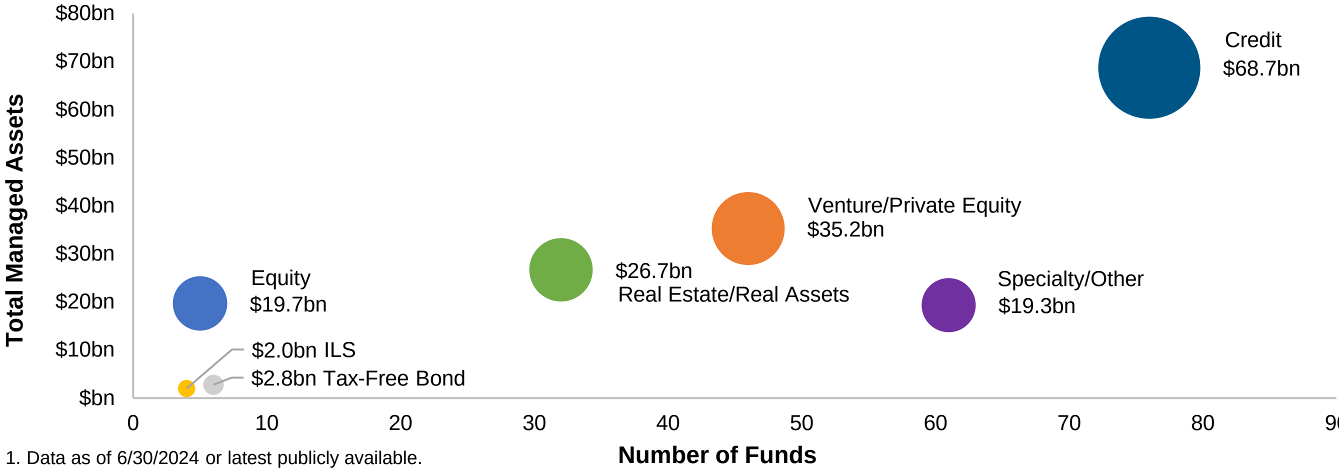
Overview of Non-Listed CEF SEC Registrations

50 Total Non-Listed CEFs Currently in Registration Process



As of 6/30/2024. Avg. Months in Registration represents the average time in registration for funds that have gone effective with an initial filing date after 1/1/2022. 1940 Act only funds are excluded from Avg. Months in Registration as they do not receive a Notice of Effectiveness from the SEC.

Overview of Non-Listed CEF Market by Asset Class[1]

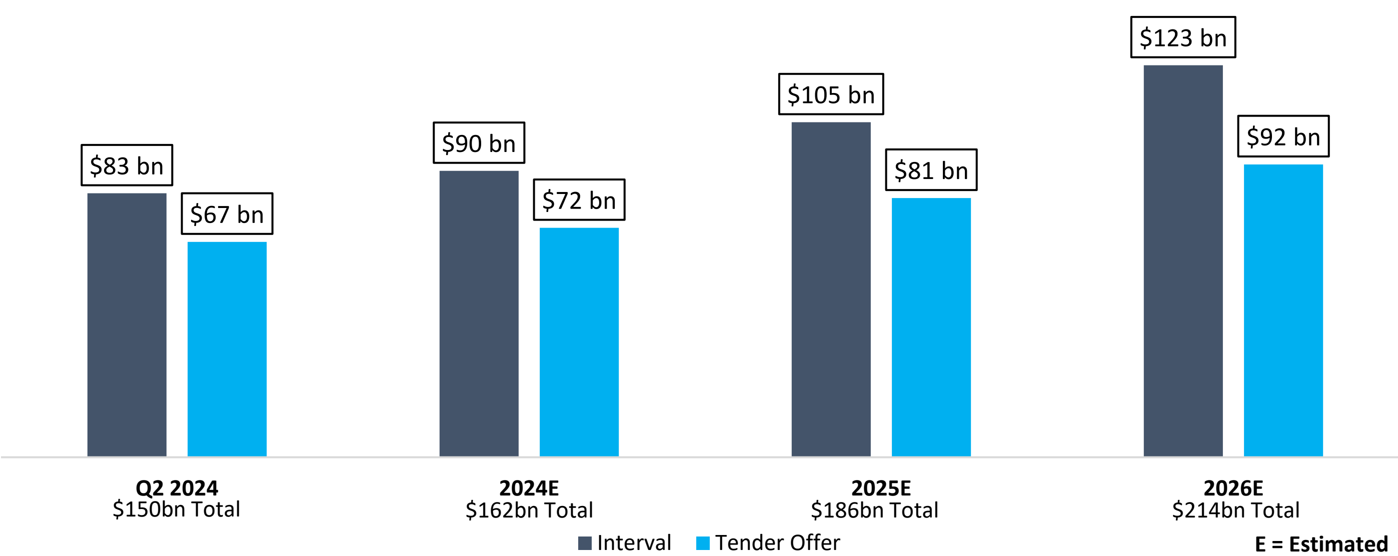


1. Data as of 6/30/2024 or latest publicly available.

Non-Listed CEF Market Key Performance Indicators (YTD)

Funds	230	+20 Funds Entered Market -2 Funds Exited Market	8.5% Change YTD	235 - 255 Funds XAI YE Forecast
Net Assets	$150bn	$24bn YTD Net Asset Growth	19.1% Change YTD	$160 - $175bn XAI YE Forecast
Market Share by Fund AUM (as a % of Net Assets)	**5 Largest Funds** 37% Market Share	**10 Largest Funds** 52% Market Share	**20 Largest Funds** 71% Market Share	**30 Largest Funds** 83% Market Share
Market Share by Sponsor (as a % of Net Assets)	Cliffwater 14.2%	Partners Group 9.9%	SilverBay Capital 5.6%	Apollo 3.7%

XAI Research Forecast: Interval Fund Growth Outpacing Tender Offer Fund Growth



	Net Assets[1] ($bn)	# of Funds
6/30/2024	$150	230
2024 YE Forecast	$160 – $175	235 – 255
2025 YE Forecast	$175 – $205	255 – 285
2026 YE Forecast	$205 – $230	285 – 305

Interval and Tender Offer Fund Growth

- XA Investments Research Forecast expects Interval Fund growth to outpace Tender Offer Fund growth over the coming years.
- XAI forecasts the non-listed CEF market to grow up to $175bn in net assets and 255 total funds by the end of 2024.
- We project that Interval Fund net assets to grow at a 17% CAGR, while Tender Offer net assets will grow at a 13% CAGR.

Note: XAI's forecast uses projections of future net flows, fund launches, and growth in recently launched funds. XAI expects continued growth in interval and tender offer fund net assets.

1. Net assets above represents total managed assets net of any liabilities, including leverage. 2024 actual figures are latest publicly available as of 6/30/24.

XA Investments Interval and Tender Offer Fund Mid-Year 2024 Market Update

XA Investments Research and Consulting Services

Research Services

XA Investments provides a comprehensive range of interval fund research designed to meet diverse client needs.

Our research subscribers benefit from monthly updates on interval and tender offer funds, timely alerts on N-2 filings for competitors, and detailed quarterly research reports.

Consulting Services

XA Investments provides various consulting services with a distinguished track record in product design and development. Our unique blend of expertise in alternative investments and registered funds allows us to deliver customized solutions. Whether you need comprehensive product development or strategic marketing services, we offer expert support every step of the way to meet your specific needs.

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Investing in CEFs involves risk; principal loss is possible. There is no guarantee a fund’s investment objective will be achieved. CEFs, interval funds and tender offer funds are designed for long-term investors who can accept the special risks associated with such investments. Interval and tender offer CEFs are not intended to be used as trading vehicles. An investment in an interval or tender offer CEF is not suitable for investors who need access to the money they invest. Unlike open-end mutual funds, which generally permit redemptions on a daily basis, interval and tender offer CEF shares may not be redeemable at the time or in the amount an investor desires. An investment in CEFs involves risks, including loss of principal.

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