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Blue Vault 2025 Alternative Investments

Mid-Year Outlook and Select Sector Reports

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INTRODUCTION

As the financial landscape continues to evolve, wealth advisors are staying ahead by broadening their expertise in alternative investments. These assets—ranging from private equity and private credit to real estate and commodities—offer more than just diversification beyond traditional stocks and bonds; they offer the potential for higher returns that advisors can leverage to help clients meet their wealth preservation goals.

Advisors increasingly tell us that investors are pushing them to invest in alts, not the other way around. Clearly, word has gotten out about alts, but there is still much to do. Since our last Outlook, some of the biggest names in wealth management, such as BlackRock and Morgan Stanley, have called for boosting alts allocations in client portfolios to as high as 15% or even 20%. With growing interest in alts, advisors who can effectively navigate these investments will be better equipped to provide tailored strategies for clients. Continued training to boost alts proficiency among advisors is crucial to a successful alts experience.

Fortunately, the industry is pulling together to educate advisors about alts as evidenced by the overwhelming level of contribution to this report. The Blue Vault 2025 Alternative Investments Mid-Year Outlook and Select Sector Reports—our largest and most comprehensive report to date—is a collaboration by some of the industry's brightest minds. The purpose of the Outlook is to provide advisors with a review of where alternative investments stand at the mid-way point of the year and what to look for as we move ahead.

The Outlook is a product of the Blue Vault Alts Educational Board, which consists of 16 executives from 16 different wealth firms across the financial services industry. The report includes article content from 20 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 Bluerock's Josh Hoffman for his leadership role in making the Outlook take shape.

Stacy H. Chitty
Managing Partner

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Credit-Focused Funds Help Drive Business Growth, 'Alts' Boom

As the 2025 mid-year mark approaches, the lingering higher-rate environment has increased investor interest in credit-focused, semi-liquid funds, helping to bolster business growth and drive fresh offerings and fundraising for alternative investments.

The business community is counting on continued economic growth to help grow jobs at home and keep America competitive globally. As other nations have struggled to grow their economies in recent years, the United States bucked the trend by growing close to 3% last year.[1] Our nation needs a "flourishing innovation ecosystem ... powered by business" to maintain that advantage, U.S. Chamber of Commerce President and CEO Suzanne Clark said in a January keynote speech.[2]

Higher interest rates can make it difficult to start a new business — and grow the economy more broadly — but innovatively structured investment vehicles such as business development companies (BDCs) and interval funds centered on credit are stepping in to fill stubborn lending gaps. There are also several nontraded real estate investment trusts (REITs) that focus on credit investments, creating additional lending options.

Meanwhile, escalated interest in these funds has helped the alts industry flourish in a challenging economy while continuing to offer investors a balance of liquidity, diversification, and long-term returns. Read on to learn how different sectors of the alts industry have performed in recent years.

BDCs: In Full Fundraising Boom

Nontraded BDCs, which were largely dormant until 2020, have led the alts industry trend, growing from $21.4 billion in 2019 to $192.8 billion as of the first quarter of 2025, Blue Vault data show.[3]

BDCs provide alternative sources of funding for entrepreneurs and others seeking business loans, making them attractive when interest rates shoot up. Due to their direct lending approach, which removes brokers and other intermediaries, a large majority of BDC loans are made at floating rates.

Additionally, as SEC-registered investment firms, BDCs must also offer operational or managerial assistance to the small- and medium-sized companies they invest in, giving those companies an extra layer of support previously unavailable to them.

Similar to REITs, BDCs are required to distribute at least 90% of their taxable income as dividends to investors. For investors in BDCs, all of these factors can potentially lead to strong returns, which has largely been the case in the post-pandemic era.

"As long as BDCs continue to take on more assets and defaults remain low, as they have been, then shareholders will continue to receive very strong distribution yields on top of strong earnings — all of which contributes to higher returns," said Luke Schmidt, Vice President of Research at Blue Vault.

There were 21 open nontraded BDCs actively raising capital as of March 31, 2025. Returns for the three-month period ending March 31, 2025, for all active funds were strong by most standards:

Index	Total Returns
Median Nontraded BDC Returns (Blue Vault) *	1.75%
Morningstar LSTA Leveraged Loan Index	0.45%
ICE BofA US High-Yield Total Return Index	0.94%

*Returns only include those funds that were in operation for the entire nine-month period.

BDCs' fundraising success has attracted renewed interest in the industry, with product sponsors such as AllianceBernstein, AMG, First Eagle, and Kennedy Lewis having registered or launched new products in 2024.

Interval Funds: Big on Credit

Interval funds, the rising star of the alts industry — characterized by low investment minimums, frequent valuations, and 1099 tax forms — are an increasingly popular vehicle for credit investors. Credit-focused interval funds have grown both in total assets as well as a percentage of the overall sector. In total, 77.1% of interval fund industry capital raise came from credit-focused funds in 2024, up from 67.3% for all of 2023, Blue Vault data show.[4]

The number of interval funds tracked by Blue Vault has grown from 56 at the end of 2019 to 81 as of March 31, 2025. Of those, credit-focused funds lead the pack at 42 compared to real estate funds (13) and equity funds (12).

Fundraising for interval funds has been on a steady incline for some time, and in terms of total assets, has reflected the largest share of the alts industry since at least the fourth quarter of 2019:

As of December 31, 2019	**Credit**	**Real Estate**	**Equity**	**Total**
Total Assets ($ billions)	$18.7	$12.1	$9.3	$40.2
Total Assets (% of industry)	46.6%	30.2%	23.2%	100%
As of December 31, 2024	**Credit**	**Real Estate**	**Equity**	**Total**
Total Assets ($ billions)	$96.6	$18.8	$17.0	$132.5
Total Assets (% of industry)	72.9%	14.2%	12.8%	100%

Governed by the Investment Company Act of 1940, interval funds are perpetual, continuously offered, and sold by financial advisors such as RIAs, independent broker-dealers, and wirehouse advisors.

Nontraded REITs: The Long Game

The higher-rate environment hasn't been as friendly to REITs. The real estate market downturn has had a troubling trickle-down effect on REIT performance, resulting in fundraising challenges and a dearth of new offerings.

The first quarter of 2025 capital raise totaled $2.08 billion, up from $1.72 billion in the fourth quarter of 2024. While improved, current fundraising remains far lower than the heady days of 2021 when quarterly fundraising reached as high as $12.5 billion.[5]

A REIT is a trust company that raises equity through an initial public offering, which is then used to buy, develop, manage and sell assets in real estate, which can include everything from shopping malls to self-storage facilities and warehouses.

While many REITs invest in real estate loans, not all REITs are strictly credit focused. However, one of the top performers in Q4 2024 was the FS Credit REIT, which raised the fourth-most amount of capital ($117.5 million) and was the sector's third-largest product with assets totaling $10.2 billion. Launched in September 2017, the FS Investments REIT has seen the sector's fortunes rise and fall.

Many advisors are likewise playing the long game. Keenly aware of the higher-rate environment's impacts on the asset class, many wealth advisors say they plan to continue allocating to REITs, noting their unique ability to optimize 60/40 portfolios and potentially generate long-term income.

References

[1] U.S. Chamber of Commerce, *State of American Business 2025: All Business Is Local*.

[2] U.S. Chamber of Commerce, *The State of American Business*.

[3] Q1 2025 BDC Industry Review, Blue Vault Partners

[4] Blue Vault Partners

[5] Blue Vault Partners

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Mid-Year Private Real Estate Outlook: 2025

Macroeconomic Insights, Benchmark Performance, and Sector Trends

BY ACCORDANT INVESTMENTS

The first half of 2025 has brought meaningful shifts for investors, particularly those allocating to private real estate. Inflation remains elevated, interest rates are still stubbornly high, and global trade tensions—punctuated by the recent tariff hike—have added further complexity to the investment landscape. In this evolving environment, the NFI-ODCE Index, long considered the institutional benchmark for private real estate, has now posted three consecutive quarters of positive net total returns—an encouraging sign after nearly two years of declines.

At Accordant's Allocator's Real Estate Roundtable in March, these developments shaped the central theme: a new investment regime is underway. Overvalued public markets, renewed volatility, and ongoing macroeconomic uncertainty are prompting institutional allocators to reexamine their exposure across asset classes. Though despite the noise, many remain firmly committed to core private real estate, citing its durability, cash flow resilience, and diversification benefits.

In the pages that follow, we share our updated outlook on the macroeconomic forces shaping today's investment environment—and how core real estate, as measured by the NFI-ODCE Index, is responding.

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Section I.

A Shifting Investment Regime: Private Real Estate in 2025

Revisiting the New Investment Regime

The first half of 2025 has brought fresh challenges and opportunities. At Accordant's Real Estate Roundtable in March, we explored emerging dynamics — from tariffs and inflation to interest rate uncertainty — shaping the private real estate landscape. This section offers a current view of macroeconomic forces and how they intersect with institutional real estate portfolios.

Lower Public Market Return Outlook:
The U.S. stock market was strongly overvalued heading into 2025. The Price-to-Earnings (P/E) Ratio, which measures the market's price relative to its earnings, was significantly above historical averages. In fact, by the end of 2024, the ratio reached levels only seen twice over the last 150 years – during the post-pandemic recovery in 2021 and the tech bubble in 1999-2000. In each of those previous occurrences, a meaningful correction followed, so it would have been foolhardy to rule out a similar outcome at the time.

Uncertainty Around the Economy, Interest Rates, and Inflation:
While the data did not yet justify calling a recession at the start of the year, there were signs of a slowing economic outlook as cracks were beginning to form across consumer balance sheets. For example, credit card delinquencies surged in Q4 2024, rising to the highest level since 2011.[1] This dynamic was notable as strong consumer spending had powered the economy in recent years, and such a drastic shift seemed to herald weaker economic growth going forward.

Meanwhile, inflation had been slowing significantly from all-time highs just a few years ago, but remained stubbornly elevated in recent quarters, hovering above the Federal Reserve's 2% target. Even as early as February of this year, concerns about higher prices were bolstered by data from the Michigan Consumer Survey, which estimated 5-year inflation expectations at 3.30%, marking the highest such figure since 2008. Given this backdrop, market commentators voiced increasing concern that the inflationary environment might persist and prompt the Federal Reserve to keep interest rates higher for longer.

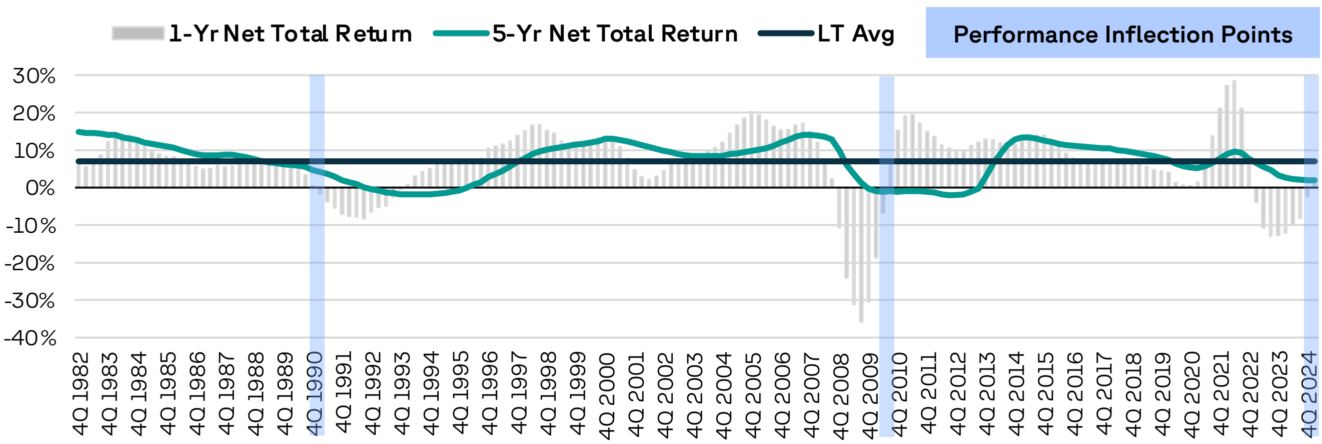
Market Volatility:
Suffice it to say that, while we were directionally correct in our assessment, much of the above outlook was unfortunately verified on April 2, where the average U.S. tariff rate rose to ~19%, representing the highest level since the Great Depression Era of the 1930s. While the possibility of tariffs being increased to such an eye-watering level was not given heavy weight in our initial thought process, we believe our overall economic outlook largely remains intact.

The subsequent several shifts in trade policy have not only sparked widespread uncertainty and volatility, but they have also caused many market participants to pause some investment activity. In fact, at a large industry conference, which we attended with more than 50 of the world's largest institutional real estate investors, the consensus was that it would be prudent to take a "wait and see" approach until there is more clarity regarding the actual implementation and corresponding impact of tariffs. We would also note that these investors have significant allocations to private real estate and were largely positive on their current holdings, and in no hurry to begin selling as these assets serve a valuable role in their multi-asset portfolio.

Market Realities vs. Expectations

At the beginning of the year, private real estate markets were clearly in recovery mode. For starters, valuations had adjusted to reflect current interest rates, and at the time, we had written in our quarterly market commentary that we believed the NFI-ODCE Index had bottomed. We projected that the rolling 1-year return would turn positive in Q1 2025 for the first time in two years, which it has. Construction costs, which had increased rapidly in recent years due to elevated inflation and a tight labor market, were finally showing signs of moderating. Supply levels, or new development starts, were fairly limited apart from a few pockets of overbuilding. Overall, the supply/demand fundamentals were strong, transaction activity was relatively healthy, and deal flow was increasing by the week. Plus, there was a general view amongst market participants that interest rates would ease, further propelling the private real estate recovery. Thus, going into 2025, we believed that forward returns for real estate were set to deliver an outcome that was at or above historical norms.

EXHIBIT 1:
NFI-ODCE Index Returns Reached an Inflection Point
After seven quarters of negative returns, the NFI-ODCE Index has now posted three consecutive quarters of positive performance. Performance Inflection Points, below, refer to periods where quarterly net total returns of the NFI-ODCE Index shifted from negative to positive. The chart illustrates one-year and five-year preliminary trailing net total return data as of Q1 2025. The long-term average is based on the five-year trailing net total return.



Of course, all these conditions existed prior to the series of U.S. tariff announcements in April. Certainly, since then, market sentiment has shifted. In fact, according to the Bank of America Global Fund Manager Survey, bearish sentiment is currently at its highest point in decades.[2] While the concerns are warranted, it's important to remember that the final outcome around the Administration's trade policy is still to be determined, both for the macro economy and the private real estate market at large. Plus, given the many variables at play, any in-depth analysis is akin to solving an "if/then" equation, while having limited and very imperfect data. Still, we believe it's important to evaluate these issues through the lens of asking how this will impact private real estate. So it is from this perspective that we share our view and some of the potential outcomes that we can envision ahead.

Tariff-Driven Considerations for Private Real Estate

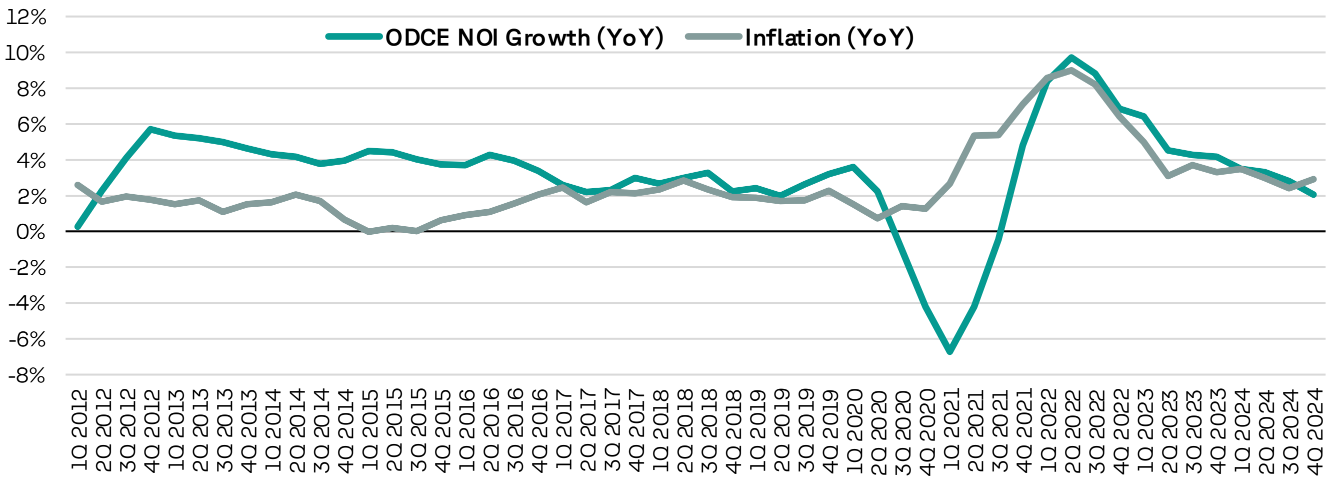
There are multiple tariff-driven scenarios (if/then) and a wide range of outcomes that could significantly impact private real estate in both the short and long term. Therefore, we'll focus on several key issues while underscoring the vast complexities (and seeming contradictions) that could shape the private real estate market as the tariff outlook unfolds:

Re-evaluating Inflation Expectations:
One of the major concerns of a higher tariff environment is its potential to cause inflation. Inflation impacts private real estate returns in a number of ways. For example, it generally leads to an increase in property values as replacement costs rise and it can also spur rental growth as landlords adjust rents to keep pace with rising costs, which can help maintain or increase cash flow from properties. Conversely, high inflation can increase operating costs and thereby cause an erosion in net income, particularly if rents fail to increase proportionately. Yet, higher inflation also tends to

attract investors to private real estate as a hedge given the asset class's ability to generate income and appreciate in value during inflationary periods. All this is to say, the relationship between inflation and private real estate is complex even during somewhat normal market conditions, and one would expect even greater uncertainty in the current tariff-driven environment.

EXHIBIT 2:
Core Real Estate & Inflation

Core real estate net operating income (NOI) growth, represented by NOI growth of the NFI-ODCE Index, has a history of keeping pace with inflation.



Counting the Construction Costs:

As noted above, inflation tends to lead to higher replacement costs, largely due to increases in construction budgets. In fact, tariffs on steel and aluminum, which are primary components for real estate developments, recently rose to ~25%.[3] If these tariff levels remain in place, they could certainly lead to higher project costs and potentially lower profit margins. Thus, in the near term, many new construction opportunities may no longer "pencil out" given the higher cost of construction materials. As a result, one would expect there to be less new real estate supply, which should ultimately benefit existing real estate portfolios. This is important because in an environment where there is limited new supply, real estate investors have historically been able to sustain healthy rental growth. It is not clear if this will be the case under whichever tariff regime ultimately prevails, but it certainly falls within the realm of potential outcomes.

Higher for Longer Interest Rates:

Inflation often leads to higher interest rates. The resulting increased cost of borrowing can impact the profitability of leveraged investments like some strategies in private real estate, reducing overall returns. This exact scenario played out in recent years across the private real estate market, when interest rates rose 425 basis points from March to December 2022, the fastest pace of tightening since the early 1980s.[4] During that period, the private real estate market effectively froze. Deal volume fell dramatically, liquidity all but disappeared, and many investors withdrew from the market for nearly two years until conditions eased. This market disruption occurred in large part because of the uncertainty surrounding the pace of changes in interest rates, which, of course, was directly a result of persistently elevated inflation. Therefore, while inflation tends to result in several positive outcomes for real estate, these can be overshadowed should interest rates rise rapidly or remain at elevated levels for extended periods.

On the other hand, private real estate that has low leverage, such as that in the NFI-ODCE Index, has already been revalued by 25% and has higher cash flow with low leverage. The combination of high-quality assets that have a lower basis than replacement cost makes the NFI-ODCE Index a compelling alternative. Plus, over the long term, these assets will likely benefit from stability and current cash flows.

Slow-Growth Economic Outlook:

Economists are generally bearish on the short-term macro effects of higher tariffs, with industry leaders like J.P. Morgan predicting a 60% chance of a recession in 2025.[5] As one would expect, slower economic growth is certainly a drag on the broader private real estate market. Yet, even in this downside scenario, there will be some pockets of optimism. For example, should a recession occur, it would likely lead to a deflationary environment, finally breaking the inflationary trend that has gripped the economy for years. One would also expect the Federal Reserve to cut interest rates in response, which would benefit private real estate by reducing financing costs and bringing cap rate spreads (the cost of debt vs. expected yield) closer to historical norms. By no means are we saying that a recession is good news for private real estate, because history shows that tenant demand declines during such periods. However, there are aspects of a slow-growth environment that could help reset the private real estate market and accelerate its recovery due to longer term leases and limited new supply.

Navigating Uncertainty and Volatility

The conditions that have emerged from the seemingly daily headlines (not all of them consistent) around the current Administration's proposed tariff policy are causing investors to rethink their priorities for the remainder of the year. As noted above, it's difficult at this stage to predict with any level of certainty what outcome will emerge, and this lack of clarity will likely lead to increased market volatility. So, what is an investor to do? In our view, it is important to keep in mind the following:

Focus on the Fundamentals:

In its simplest form, private real estate is intended to meet the needs of tenant-driven demand. Historically speaking, so long as the supply/demand dynamic maintains a healthy equilibrium, investors have done well over the long term. In today's market, the fundamentals are solid, and one could argue they are poised to improve should tariffs result in higher construction costs that limit new supply from coming online in the near term.

Mitigate Asset Allocation Risk and Diversify:

Private real estate plays a valuable role in portfolio strategy today. Private real estate has several attractive attributes, including its ability to offer a hedge against inflation while also providing portfolio diversification. Private real estate has historically exhibited a low correlation to traditional asset classes like public equities and fixed income. In short, when stocks and bonds zig, private real estate tends to zag, providing diversification benefits that reduce overall portfolio risk. Thus, maintaining their customary target asset allocation is crucial for many investors today because it serves as a safeguard during challenging economic conditions.

EXHIBIT 3:
Real Estate with *REAL* Diversification
Private real estate's diversification potential as an asset class is evident through its low correlation to stocks and bonds, which is why it can serve as an attractive option for investors seeking income and to reduce portfolio volatility.

	Private Real Estate	REITs	US Stocks	Bonds
Private Real Estate	1.00	0.14	0.03	-0.24
REITs	0.14	1.00	0.75	0.24
US Stocks	0.03	0.75	1.00	0.04
Bonds	-0.24	0.24	0.04	1.00

LOW CORRELATION between Private Real Estate and US Stocks

HIGH CORRELATION between REITs and US Stocks

Selectively Seize Opportunity:

Understandably, some investors will opt to sit tight in the face of pending market uncertainty, particularly those who are unsure how to navigate those conditions. Yet, history suggests that uncertainty and volatility tend to create attractive opportunities. Our approach is to be selective as these opportunities emerge, leveraging our private real estate expertise and experience from prior cycles to take advantage of such opportunities as they present themselves.

Conclusion

Looking ahead, the investment landscape remains complex and dynamic, with persistent macroeconomic uncertainty continuing to influence asset allocation decisions. While risks remain, the foundational characteristics of private real estate—its income generation, low correlation to traditional asset classes, and inflation sensitivity—position it as a stabilizing force within multi-asset portfolios.

Core strategies, in particular, appear well-placed given the recent rebound in performance, conservative use of leverage, and improving liquidity conditions. For allocators already positioned in private real estate, current conditions offer a degree of validation. For others, the combination of discounted valuations, limited new supply, and resilient fundamentals may warrant a closer look.

As always, maintaining a disciplined, long-term perspective will be critical in navigating the path forward.

Section II.

The Benchmark that Guides the Market: the NFI-ODCE Index

While we refer to the NFI-ODCE Index throughout our outlook, it's worth pausing to define what it is — and why it matters. Much like the S&P 500 serves as a barometer for public equities, the NFI-ODCE Index is the institutional benchmark for core private real estate. Yet despite its importance, many investors and allocators are still unfamiliar with its structure and scope.

The Industry Benchmark: What Investors Need to Know About the Index

The NCREIF Fund Index - Open-End Diversified Core Equity (NFI-ODCE) is a quarterly index comprised of 25 actively-managed U.S. real estate funds offering periodic liquidity. These funds invest in high-quality, stabilized properties in prime locations across the industrial, residential, office, and retail sectors, nationally.

Pronounced "ODYSSEY," the index was first created in 2005 with data back to 1977. The term Diversified Core Equity reflects lower risk investment strategies utilizing low leverage and generally represented by equity ownership positions in well-leased, income-producing commercial real estate (CRE) assets.

NCREIF

The National Council for Real Estate Investment Fiduciaries (NCREIF) is a member-driven, not-for-profit association that improves private real estate investment industry knowledge by providing transparent and consistent data, performance measurement, analytics, standards, and education. NCREIF produced the first property-level return index, the NCREIF Property Index (NPI), more than 40 years ago. Many investors have moved from the NPI to the NFI-ODCE Index as their preferred benchmark for private real estate portfolio performance.

Real Estate Characteristics

Private real estate is not monolithic, rather it is a broad asset class encompassing many different strategies. Consequently, these strategies offer different risk and return trade-offs and these differences can be incorporated into either portfolio optimization or substitution frameworks.

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Private real estate is not monolithic, rather it is a broad asset class encompassing many different strategies. Consequently, these strategies offer different risk and return trade-offs and these differences can be incorporated into either portfolio optimization or substitution frameworks.

	CORE	CORE-PLUS	VALUE-ADD	OPPORTUNISTIC
RISKS	Minimal	Minimal-Moderate	Moderate-Moderate	Moderate-High
RETURN COMPOSITION	Current Income + Inflation Appreciation	Current Income + Some Capital Appreciation	Current Income + Capital Appreciation	Capital Appreciation
LEVERAGE	0-35%	35-60%	60-70%	70%+
INVESTMENT PROFILE	High-quality buildings in top 30 MSAs, prime locations, long-term leases and strong credit tenants	Stabilized buildings generating steady current income	Buildings with upside potential realized through value added asset management	New development or underutilized assets in need of repositioning

Requirements for Inclusion

The following criteria must be met for a fund to be included in the NFI-ODCE Index:[6]

80% Investment — of the market value of real estate gross assets must be invested in private equity real estate properties

95% Domain — of market value of real estate gross assets must be invested in U.S. markets

60% Diversification — of market value of real estate gross assets may be invested in one property type or 65% in one region

75% Property types — of market value of real estate gross assets must be invested in office, industrial, residential & retail properties

75% Life cycle — of market value of real estate gross assets must be invested in operating properties

35% Leverage — maximum leverage

NFI-ODCE Index Characteristics[6]

Largest Private Real Estate Funds

25 Preeminent institutional core real estate funds

J.P. Morgan
Morgan Stanley
Blackrock
Clarion
PGIM
Metlife
DWS
Invesco

Core Assets

Income-Producing, High Occupancy, Low Leverage

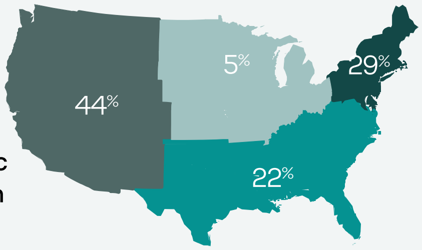
3,825 Prime, income-producing properties

91% Occupancy

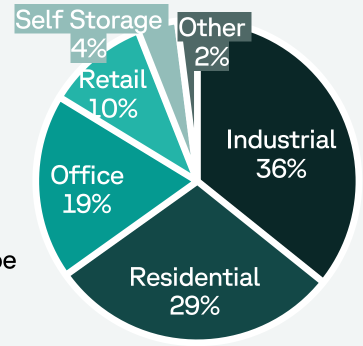
Diversified Across the U.S.

$ 279B Allocated throughout four areas of the U.S.

Geographic Breakdown

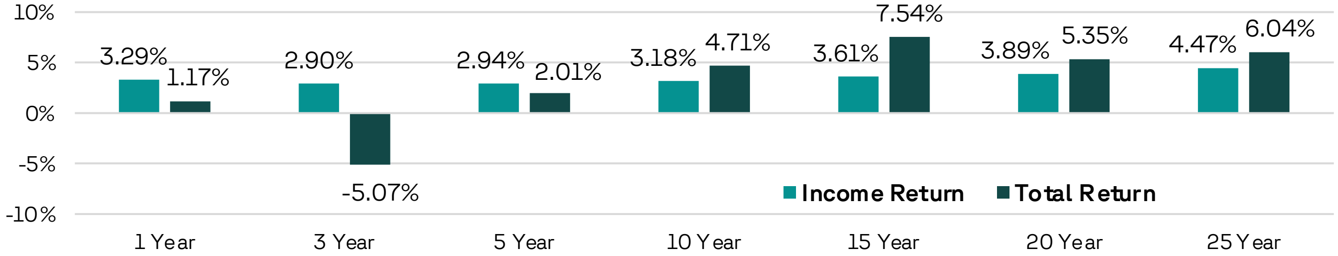


Property Type Breakdown



NFI-ODCE Index Performance

EXHIBIT 4:
NFI-ODCE Historical Net Returns
Over the last 30 years, the NFI-ODCE Index has experienced only 14 negative performing quarters compared to 36 for REITs.

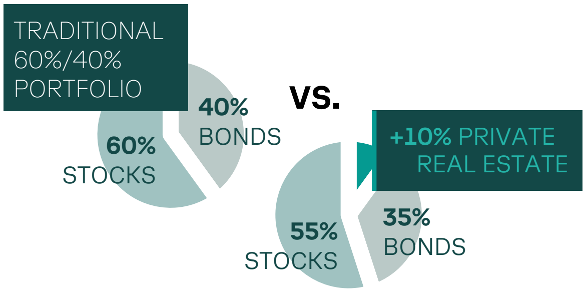


Enhancing the 60/40 Portfolio

As the traditional 60/40 portfolio faces challenges—largely due to the rising correlation between stocks and bonds—investors are increasingly turning to uncorrelated alternatives. That's where private real estate, the third-largest asset class after equities and fixed income, plays a vital role. Core private real estate, in particular, offers a differentiated return profile built on:

- **Low correlation** to public markets
- **Steady income** from high-occupancy, institutional-quality properties
- **Resilience** from low leverage assets
- **Broad diversification** potential – property types, markets, managers
- **Growth potential** tied to long-term appreciation trends.

EXHIBIT 5:
15-Year Portfolio Effect: Traditional 60/40 Stock/Bond Portfolio vs. Addition of 10% PRE Allocation
For the trailing 15 years through Q1 2025, a 10% private real estate allocation would have increased total returns on a traditional 60/40 stock/bond portfolio, while simultaneously increasing yield by 5.2%, reducing volatility by nearly 10%, improving the Sharpe Ratio by nearly 11%, and increasing returns during inflationary periods by 41.53%.

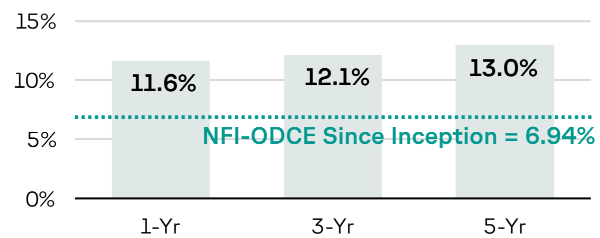


	Traditional 60%/40%	+10% Private Real Estate	Change
Yield	2.31%	2.43%	+12 bps
Return	9.02%	9.04%	+02 bps
Volatility	9.51%	8.59%	-93 bps
Sharpe Ratio	0.82	0.91	+09 bps
Inflationary Period Returns	3.54%	5.01%	+147 bps

Performance Following Revaluation

After nearly two years of negative returns, the NFI-ODCE Index has now turned positive for three consecutive quarters. Timing the market is difficult, but the NFI-ODCE Index has historically produced strong double-digit returns following revaluation periods. While equities are overvalued, this may be the time to reconsider allocations.

EXHIBIT 6:
Average Annual Net Total Return of NFI-ODCE Index after Revaluation Periods
An analysis of the one-, three-, and five-year forward returns of the NFI-ODCE Index over the past few market cycles shows that it has historically posted outsized returns in the immediate years following revaluation. The chart shows average net total return post-drawdown from Q1 1978 to Q4 2022.



Section III.
NFI-ODCE Index Performance Drivers

Q1 2025 Performance Update & Notable Takeaways

The NFI-ODCE Index continues to show signs of recovery, posting its third consecutive quarter of positive net total returns after nearly two years of negative total returns. Fundamentals of the index remain healthy overall with strong NOI growth and occupancy rates above their long-term average. Increasing transactions have resulted in improved liquidity, and further, the recent increase in investor redemption recissions suggests that queues may be normalizing.

PERFORMANCE:
Returns remained positive across all key metrics—including income, appreciation, total gross return, and total net return. All major property sectors have now delivered positive unlevered returns, including office. Retail led in performance, both quarterly and annually.

ALLOCATION:
Property count fell 5% year-over-year due to heightened dispositions. Industrial and residential assets now make up a record 65% of the index. Office exposure sits near historic lows at 18.6%. Regional allocation remained stable, with 73% (based on gross asset value) concentrated in the East and West.

MARKET:
Occupancy remains above historical averages. Component fund performance dispersion is at the high end of its historical range. Redemption queues (outflows) continue to decline due to rescissions and improved liquidity, and capital commitments have risen for two straight quarters.

Contributing Factors

FUNDAMENTALS | Occupancy: 90.7%; NOI Growth (Trailing Year): 1.6%
Remain resilient despite rising economic uncertainty. Occupancy rates currently sit above the historical average for the Index and net operating income growth declined slightly after a historically strong period.

VALUATIONS | Cap Rate Change (Trailing Year): 0.0%; Cap Rate Spread-to-Treasury: 0.3%
Changes have been minimal as cap rates appear to be leveling off after multiple quarters of lock-step increases. Rising uncertainty surrounding the future path of interest rates has further complicated the story, though recent transaction activity suggests that the market may be closer to fair value than previously thought.

PERFORMANCE | Net Total Return (Trailing Year): 1.2%
Turned positive on a one-year trailing basis after nearly two years of declines. Signs of a continued market recovery remain intact, though rising concerns of an economic slowdown have dampened expectations of a v-shaped recovery.

VOLATILITY | Performance Dispersion (Trailing Year): 12.6%
High over the past few years as performance outcomes remain wide. Component fund performance dispersion is currently at the higher-end of the historical range, driven largely by property sector allocation.

LIQUIDITY | Net Investment Queue: -12.1%
Showing signs of recovery with net investment queues rising from historic lows. With many investors now underallocated to real estate, additional redemption recissions could follow as capital returns to the space.

LEVERAGE | Loan-to-Value: 26.7%
Sits slightly above the typical range due to write-downs over the past two years. NFI-ODCE debt is mostly fixed rate and conservatively laddered over the next 5-15 years, reducing default risk substantially relative to the broader market.

Index Performance

	2025 YTD	1-YEAR	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
INCOME	1.01%	4.16%	1.01%	1.02%	1.04%	1.02%	0.99%
APPRECIATION	0.05%	-2.06%	0.05%	0.14%	-0.79%	-1.46%	-3.35%
TOTAL GROSS	1.06%	2.03%	1.06%	1.16%	0.25%	-0.45%	-2.37%
TOTAL NET	0.85%	1.17%	0.85%	0.96%	0.02%	-0.66%	-2.58%

BY PROPERTY TYPE

	2025 YTD	1-YEAR	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
RESIDENTIAL	1.33%	4.25%	1.33%	1.07%	1.33%	0.46%	-0.97%
INDUSTRIAL	1.22%	3.86%	1.22%	1.14%	1.00%	0.45%	-0.11%
OFFICE	0.75%	-2.88%	0.75%	-0.32%	-0.95%	-2.37%	-5.20%
RETAIL	2.04%	6.89%	2.04%	1.73%	1.99%	0.96%	0.66%
SELF STORAGE	1.00%	5.33%	1.00%	2.16%	1.75%	0.33%	-0.50%
OTHER	0.51%	3.31%	0.51%	1.74%	0.98%	0.05%	-1.95%

BY REGION

	2025 YTD	1-YEAR	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
EAST	1.34%	3.43%	1.34%	1.08%	1.12%	-0.15%	-1.70%
SOUTH	1.76%	5.60%	1.76%	1.50%	1.35%	0.88%	-0.01%
MIDWEST	1.32%	3.10%	1.32%	0.50%	1.02%	0.23%	-2.09%
WEST	0.87%	1.33%	0.87%	0.64%	0.38%	-0.56%	-1.86%

Index Allocation

	△ QOQ	△ YOY	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
# FUNDS	0	0	25	25	25	25	25
# PROPERTIES	-5	-155	3,285	3,290	3,337	3,370	3,440
OCCUPANCY	-0.12%	-0.14%	90.68%	90.80%	91.40%	91.80%	90.82%
LEVERAGE	-0.12%	-0.25%	26.68%	26.80%	27.17%	27.16%	26.94%

BY PROPERTY TYPE

	△ QOQ	△ YOY	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
RESIDENTIAL	-0.90%	-0.40%	29.40%	30.30%	30.10%	30.00%	29.80%
INDUSTRIAL	1.70%	2.10%	35.80%	34.10%	34.10%	34.00%	33.70%
OFFICE	-0.62%	-1.95%	18.57%	19.19%	19.49%	19.98%	20.51%
RETAIL	-0.10%	0.10%	10.30%	10.40%	10.40%	10.20%	10.20%
SELF STORAGE	-0.05%	0.00%	3.95%	4.00%	4.07%	3.99%	3.95%
OTHER	0.00%	0.10%	2.00%	2.00%	1.90%	1.80%	1.90%

BY REGION

	△ QOQ	△ YOY	Q1 2025	Q4 2024	Q3 2024	Q2 2024	Q1 2024
EAST	-0.73%	-0.44%	28.55%	29.28%	28.94%	28.98%	28.99%
SOUTH	-0.34%	-0.12%	21.67%	22.01%	21.99%	22.03%	21.79%
MIDWEST	-0.10%	-0.25%	5.40%	5.49%	5.64%	5.62%	5.65%
WEST	1.16%	0.81%	44.38%	43.22%	43.43%	43.37%	43.57%

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Sources

Exhibit 1: 1-year and 5-year preliminary trailing net total return data as of Q1 2025. Long-term average based on the 5-year trailing net total return. Performance Inflection Points refer to periods where quarterly net total returns of the NFI-ODCE Index shifted from negative to positive. Source: IDR, Component Funds, NFI-ODCE Index ("ODCE").

Exhibit 2: Year-over-year same-store NOI growth for the NFI-ODCE Index as of Q4 2024. Year-over-year inflation represented by the Consumer Price Index for All Urban Consumers: All Items in U.S. City Average as of Q4 2024. Source: IDR, NFI-ODCE, U.S. Bureau of Labor Statistics.

Exhibit 3: Twenty-year correlation of total gross returns for all asset classes as of Q1 2025. Past performance is not indicative of future results. All indices are unmanaged and not directly investable. Source: NFI-ODCE Index ("Private Real Estate"), FTSE Nareit Equity ("REITs"), S&P 500 ("U.S. Stocks"), Bloomberg Barclays U.S. Aggregate Bond Index ("Bonds").

Exhibit 4: Data as of Q1 2025. Past performance is not indicative of future results. All indices are unmanaged and not directly investible. Source: NFI-ODCE Index.

Exhibit 5: Annualized investment portfolio characteristics, 15 years as of Q1 2025. Studied inflationary environment: since 1978, there have been 26 quarters where annualized inflation was 6% or greater. Average annualized returns for these quarters were – Stocks: 1.5%, Fixed Income: 0.8%, Real Estate: 16.9%. Stocks – S&P 500; Bonds – Bloomberg US Aggregate; Private Real Estate – NFI-ODCE Index. Source: Bloomberg, NCREIF, Affinius Capital.

Exhibit 6: Average net total return post-drawdown from 1Q 1978 to 4Q 2022. Post-drawdown is defined based on quarters following periods of significant depreciation for the NFI-ODCE index. Past performance is not indicative of future results. All indices are unmanaged and not directly investible. Source: IDR, NFI-ODCE Index.

Percentages in charts and diagrams may not round to 100 due to rounding.

[1] As consumer delinquencies rise, U.S. economic growth increasingly powered by the wealthy
[2] Investors are most bearish in 30 years, BofA survey finds By Investing.com
[3] What happened the last time Trump imposed tariffs on steel and aluminum
[4] Banking Sector Performance during two periods of sharply higher interest rates: 2022 and 2004 to 2006
[5] What Is the Probability of a Recession? | J.P. Morgan Research
[6] Source: NFI-ODCE Index as of Q1 2025.

Important Disclosures

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The NCREIF Fund Index – Open-End Diversified Core Equity ("NFI-ODCE") is a capitalization-weighted, gross-of-fees, time-weighted return index of open-end core real estate funds with at least 95% of their assets invested in U.S. operating properties and no more than 40% leverage. The ODCE Index is compiled by the National Council of Real Estate Investment Fiduciaries (NCREIF) and is reported quarterly. Indexes are unmanaged, do not incur management fees, costs, and expenses, and cannot be invested in directly. Diversification strategies do not ensure a profit and do not protect against losses in declining markets. The selected examples of specific types of investments were selected for illustrative purposes only and are not necessarily representative of all transactions of a given type with regard to performance and/or operating metrics.

Past performance is no guarantee of future results. Therefore, you should not assume that the future performance of any specific investment or investment strategy will be profitable or equal to corresponding past performance levels. Inherent in any investment is the potential for loss. It should not be assumed that any investments in securities, companies, sectors, or markets identified and described in this were or will be profitable.

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Q1 2025 Travel & Lodging Update

June 2025

The Fastest-Growing Sector in the Global Economy

10%

In 2024, Travel & Tourism contributed $10.9 trillion (10% of global GDP) through direct, indirect, and induced impacts.[1]

357M

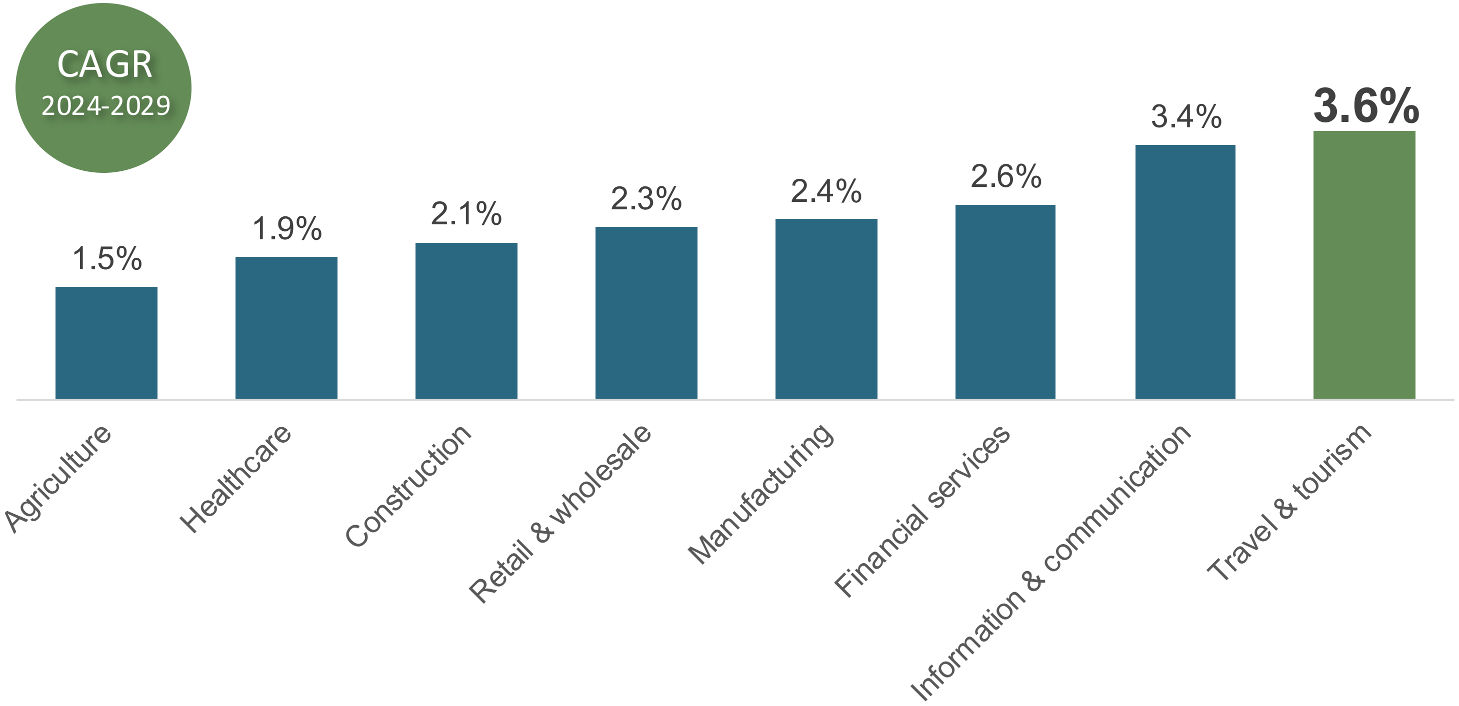
In 2024, Travel & Tourism supported 357 million jobs—about 1 in 10 worldwide.[1]

11.6%

In 2024, domestic visitors spent $5.3 trillion (up 5.4%), while international visitors spent $1.9 trillion (up 11.6%).[1]

Travel & Tourism: The Fastest-growing Sector In The Global Economy

Growth comparison by sector: gross value added (GVA) measured in compound annual growth rate (CAGR)[2]



1) World Travel & Tourism Council, Economic Impact 2025, April 2025. **2)** Source: World Travel & Tourism Council (WTTC), Statista infographic shows the global gross value added of various sectors measured in compound annual growth rate 2024-2029. 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.

Positive Indicator for Hotel & Leisure Spending in 2025

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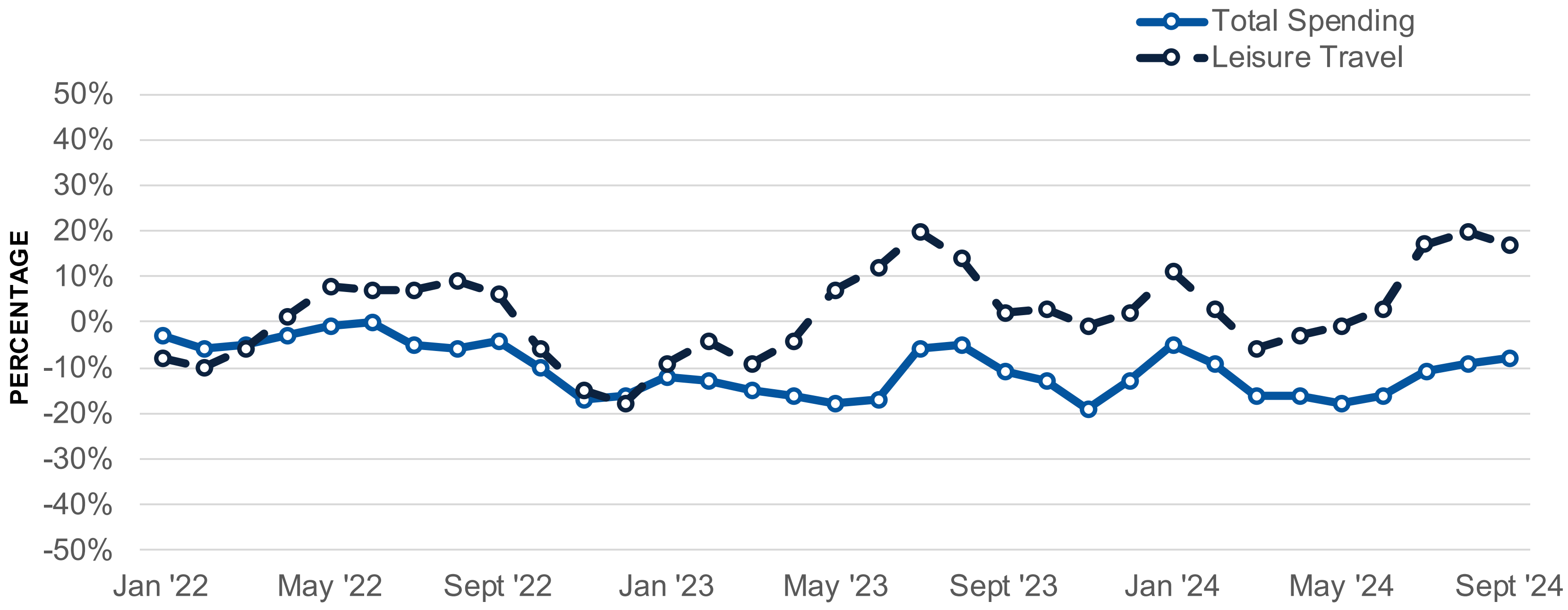
A SECULAR TREND: IMPROVING CONSUMER CONFIDENCE A TAILWIND FOR LEISURE DEMAND[1]

Spending on lodging accommodations and leisure travel has outpaced growth in overall consumption in the U.S. for multiple decades. In terms of demographics, all generations and age cohorts have demonstrated a higher propensity to spend on hotels over time.[2]

Deloitte U.S. Consumer Spending Intentions Index[1]



*"We believe that we'll continue to see positive momentum – **no waning of leisure demand** – as we head through the fourth quarter and throughout 2025."*[3]

\- Geoff Ballotti, CEO
Wyndham Hotels

1) LARC's 3Q-2024 Market Intelligence Reports Release Webinar, September 10, 2024. Source: Deloitte, Lodging Analytics Research and Consulting. 2) Source: Green Street, Mid-Year Real Estate Alert, August 20, 2024. 3) Skift, "Wyndham Hotels CEO: 'No Waning in Leisure Travel Demand,'" October 24, 2024.

Travel: A Cross-Generational Megatrend

5.2 Billion

Global Population Aged 15 - 64

Gen Z
(ages 16 – 26)

- Exploration & adventure
- Technology plays a key role in booking and experience

Millennials
(ages 27 – 42)

- Comfort and convenience
- Cultural events and live music
- Family-friendly options are especially important

LOVE TRAVEL!

Gen X
(ages 43 – 56)

- Rest & relaxation
- Culinary experiences and local cuisine
- Good hotel restaurant
- Local advice

Baby Boomers
(ages 57 – 72)

- Culinary experiences
- Strong preference for in-person dining
- 'Human-factor' and service are paramount

"…while generations have their differences, ***one area where they align is their enthusiasm for travel*** *and seeking memorable travel experiences that meet their unique needs."*

- Jason Dorsey
President and Lead Researcher,
The Center for Generational Kinetics

Sources: Hilton 2024 Trends Report and American Express 2023 Global Travel Trends Report.

Hotels Dominate Lodging Choices Across Generations

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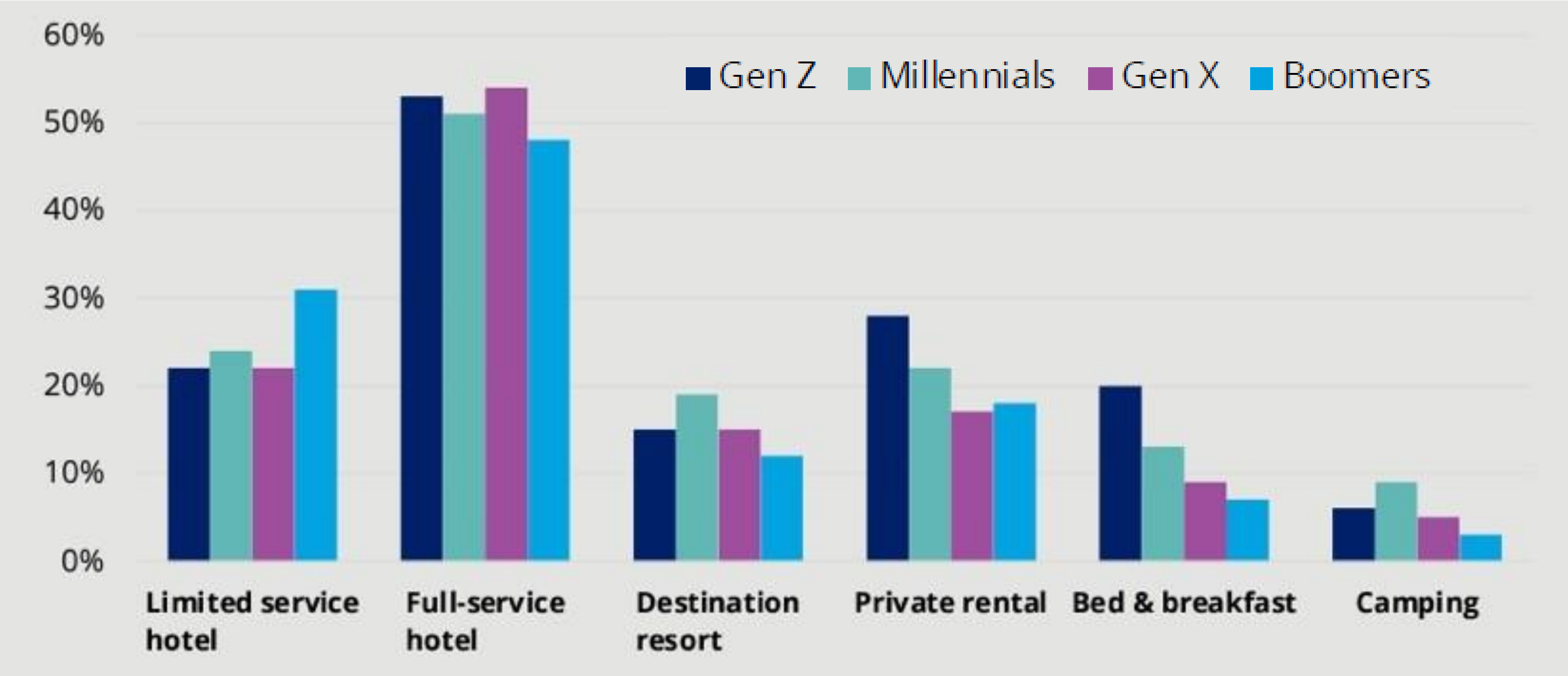
51% of travelers are staying in full-service hotels during marquee trips – a cross-generational trend



Source: Deloitte Insights, "The experience economy endures", 2023 Deloitte summer travel survey.

Hotels Adapt to Cater to Travel Trends

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Growth of Extended Stay Hotels

Guest preferences continue to move towards blending business and leisure. Hotels are dual-purpose properties that blend extended stay and traditional hotel rooms[1]

Day Passes for Locals

Hotels are increasingly using day passes to attract price-sensitive consumers and maximize value from their assets and available space.

Hotels Developing More "Retailing" Strategies[2]

Investing in technology to upsell guests on a number of a la carte options, such as upgraded rooms and early check-in. Focus on maximizing value from individual guests to address occupancy challenges.

1) Source: Hospitality Investor, "The Opportunity in Extended Stay", January 17, 2025. 2) Skift, "Hotels Will Start Selling So Much More Than Rooms", December 2024.

Travelers Prioritize Memorable Experiences

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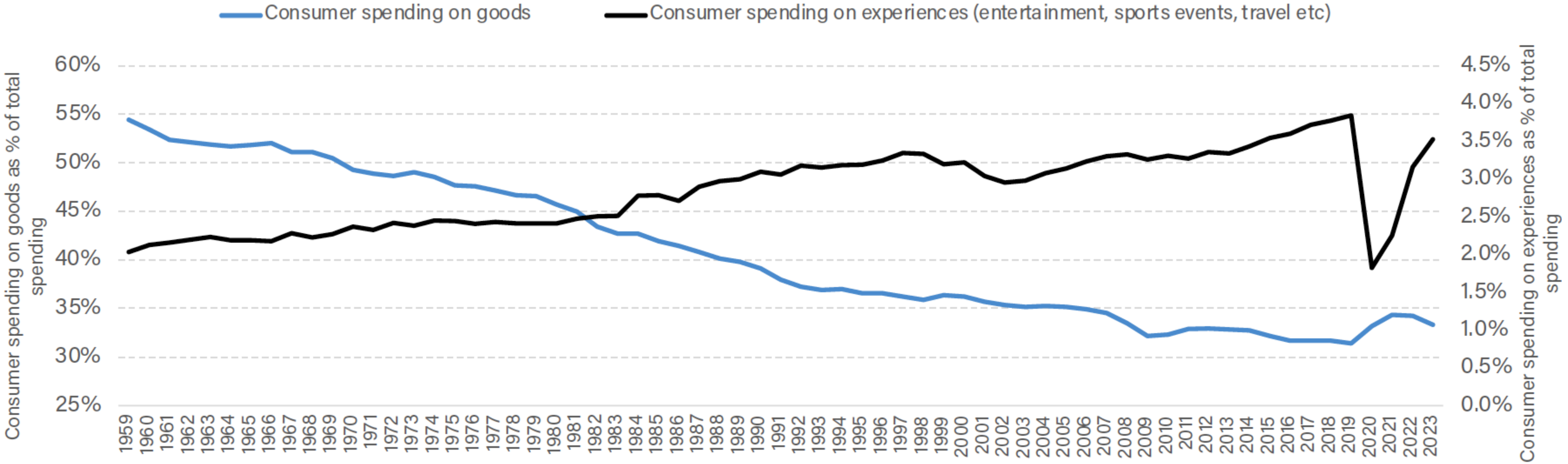
Younger generations, particularly Millennials and Gen Z, are leading the trend in prioritizing meaningful travel experiences, even at the expense of daily conveniences such as coffee and food delivery.[1]

U.S. Consumer Spending on Experiences vs Goods[1]



1) Skift Research, State of Travel 2024, August 2024. Source(s): Bureau of Economic Analysis, U.S Department of Commerce. Data as of 2023. American Express Travel: 2024 Global Travel Trends Report, Data as of June 2024.

Family Travel to Maintain its Dominance in 2025

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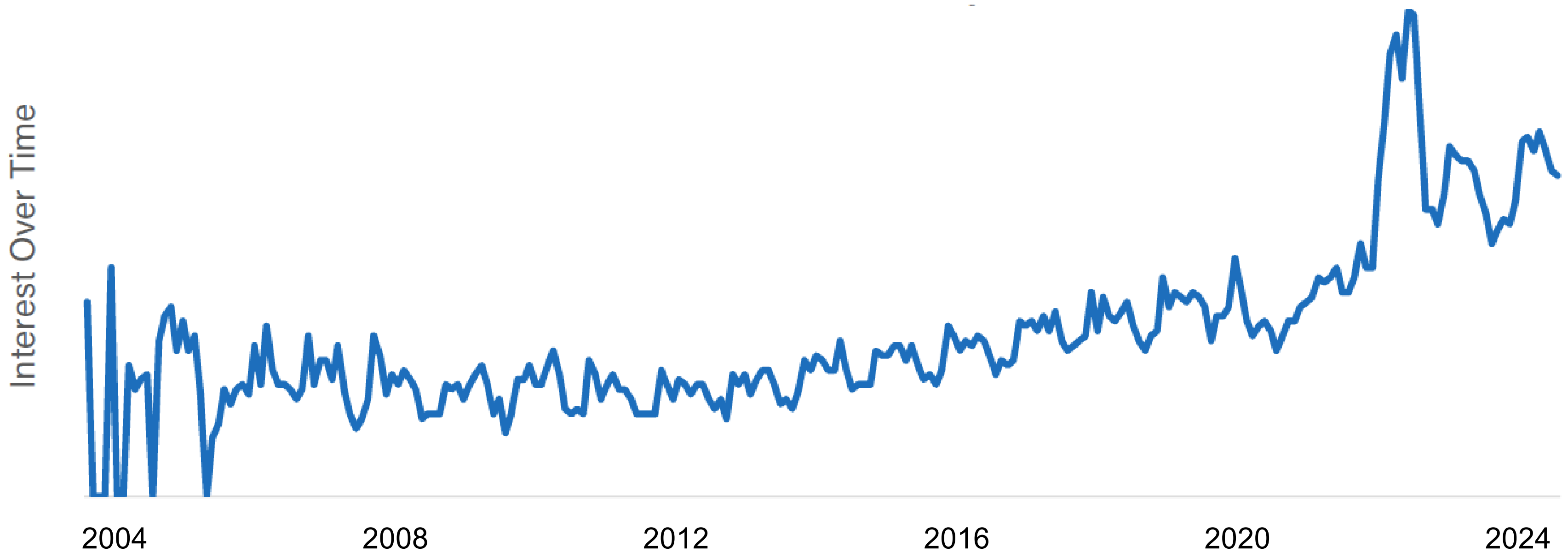
Family travel is expected to remain the leading travel preference in 2025.
Looking ahead, 46% of families plan to increase their travel spending.[1]

Family Travel Peaked Post-Covid in 2022 and Has Remained Elevated Since[1]
Search Interest in ‘Travel with Family’ since 2004



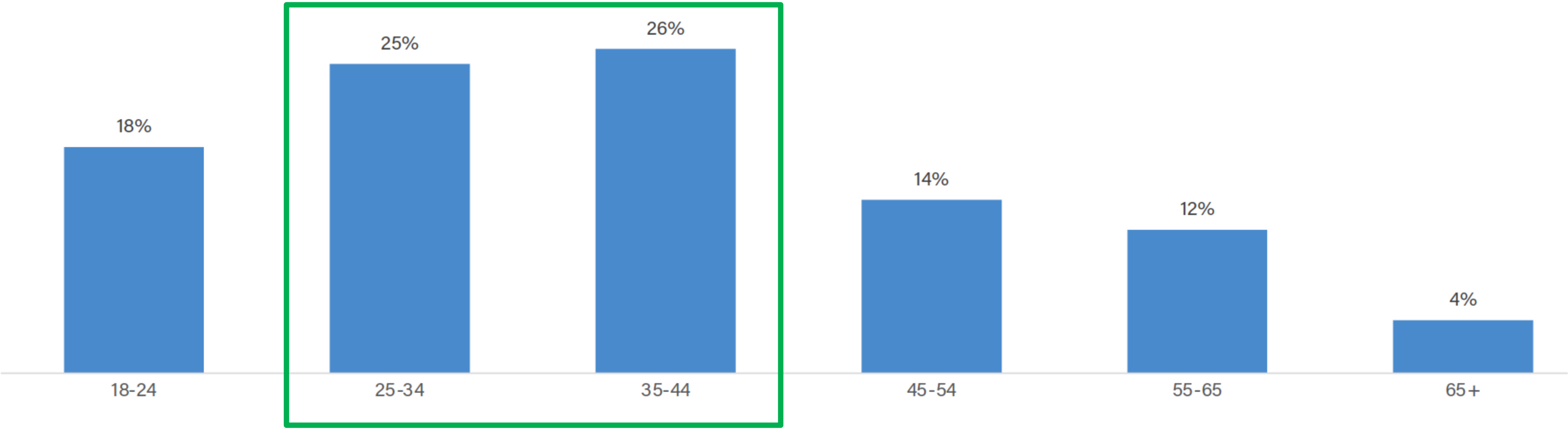
70% of global respondents who travel with their children pick the **vacation destination based on kids’ needs** and interests.[2]

1) Skift Research, State of Travel 2024, August 2024. Note: Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means that there was not enough data for this term. Source: US Family Travel Survey. Google Trends, Data as of July 2024. 2) Hilton, “2025 Hilton Trends Report”, September 30, 2024.

Blended Travel Is the New Business Trip

Gen Z and Millennial travelers are shaping the future of business travel with their demand for flexibility and the most likely demographics to blend business with leisure. Remote work has also significantly influenced travel patterns.

Younger Travelers More Likely to Extend Business Trips for Leisure[1]
Share Of Travelers Who Extended Their Business Trips for Leisure, by Age

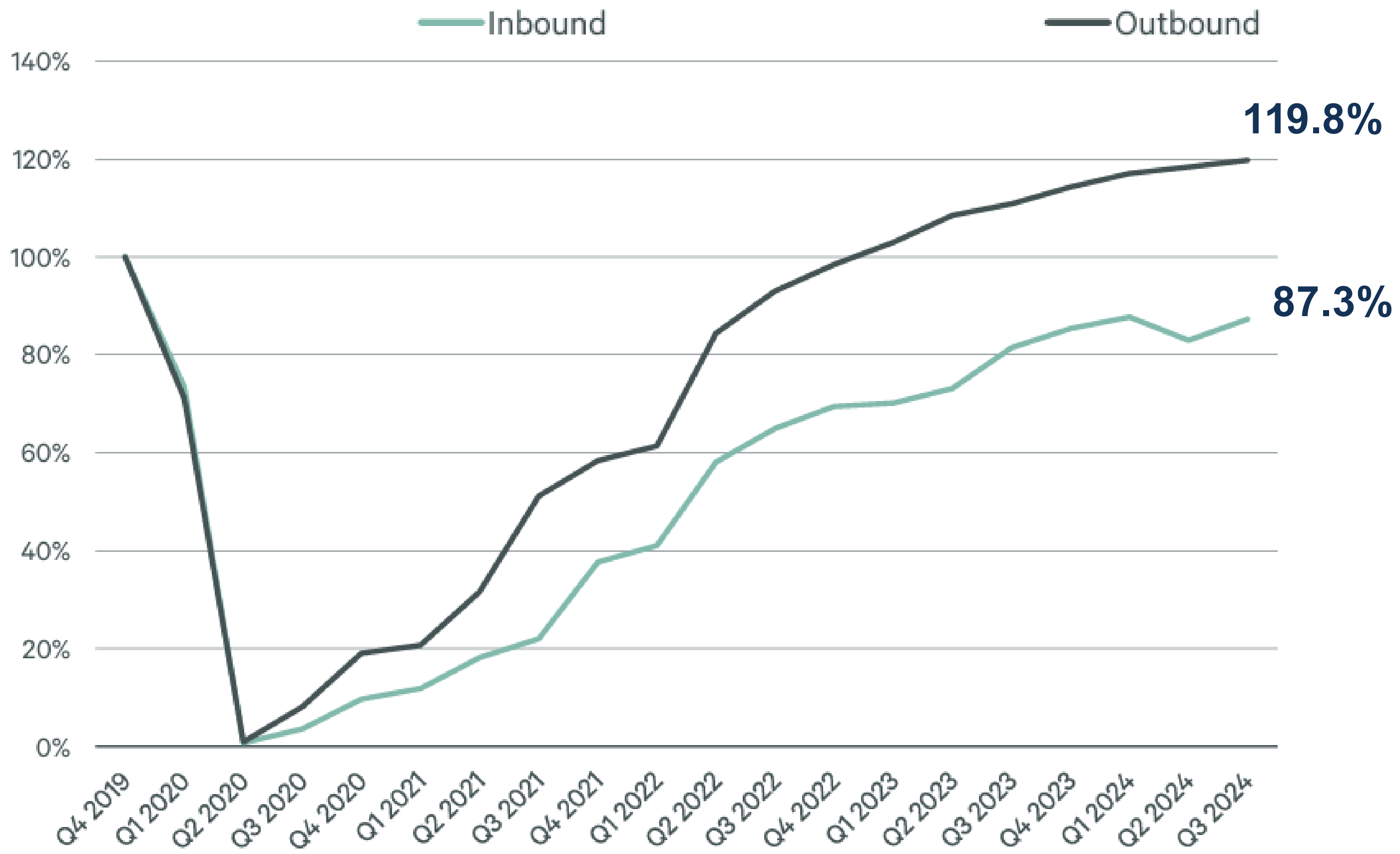


1) Skift Research, State of Travel 2024, August 2024. Source: Skift Research U.S. Travel Trends Q1 2024: Exploring Day Tours and Experiences. Data as of April 2024.

Imbalance in International Travel Impacting Hotel Demand

Outbound U.S. travel is rising, widening the gap with inbound visits despite a weaker dollar.[1]

Percent of 2019[1]



Tailwind for leisure demand

The real U.S. dollar has declined by 7.5% since the start of 2025, making **U.S. destinations more affordable** for foreign inbound travelers.[2]

1) Source: CBRE Research, National Travel & Tourism Office, Q3 2024. 2) Morningstar, "More than Tariffs: Behind the US Dollar's Decline", May 19, 2025.

Travel Demand Drivers and Headwinds

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DOMESTIC LEISURE

+ Real income growth
+ Solid balance sheets
+ Modest inflation
+ Tax cut extensions
- Softening labor market
- Potential equity market correction

DOMESTIC BUSINESS

+ Lower interest rates
+ Expansionary fiscal policy
+ Tax cut extensions
- Potential inflation from tariffs
- Immigration restrictions

INTERNATIONAL

+ Pent-up demand
+ Reduced visa wait times
+ Outbound plateau
- Dollar strength
- Travel restrictions
- Trade war response
- Visa processing risk
- Sentimental effects

Source: Tourism Economics, December 2024.
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.

Q1 2025 Earnings Calls

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Marriott INTERNATIONAL

Booking trends are expected to **soften in the U.S. and Canada**. Macroeconomic uncertainties and the potential impact of geopolitical tensions on international travel could affect performance, with **1.5%-3.5% RevPAR growth globally**.

Hilton FOR THE STAY

Full-year 2025 system-wide RevPAR growth expectations are **flat to up 2.0%,** with the midpoint assuming current trends continue. **Group segment is anticipated to outperform the transient segment** in terms of RevPAR growth.

UNITED

No deterioration in high-end consumers' willingness to purchase a premium experience. Economic uncertainty is having a larger impact on more budget-minded discretionary travelers. Wealthier travelers taking international vacations are less impacted so far, pointing to **healthy high-end travel demand.**

Source: Q1 2025 Earnings calls, HVS.
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.

Airfares Pulled Back in Q1, Reducing Overall Cost of Travel

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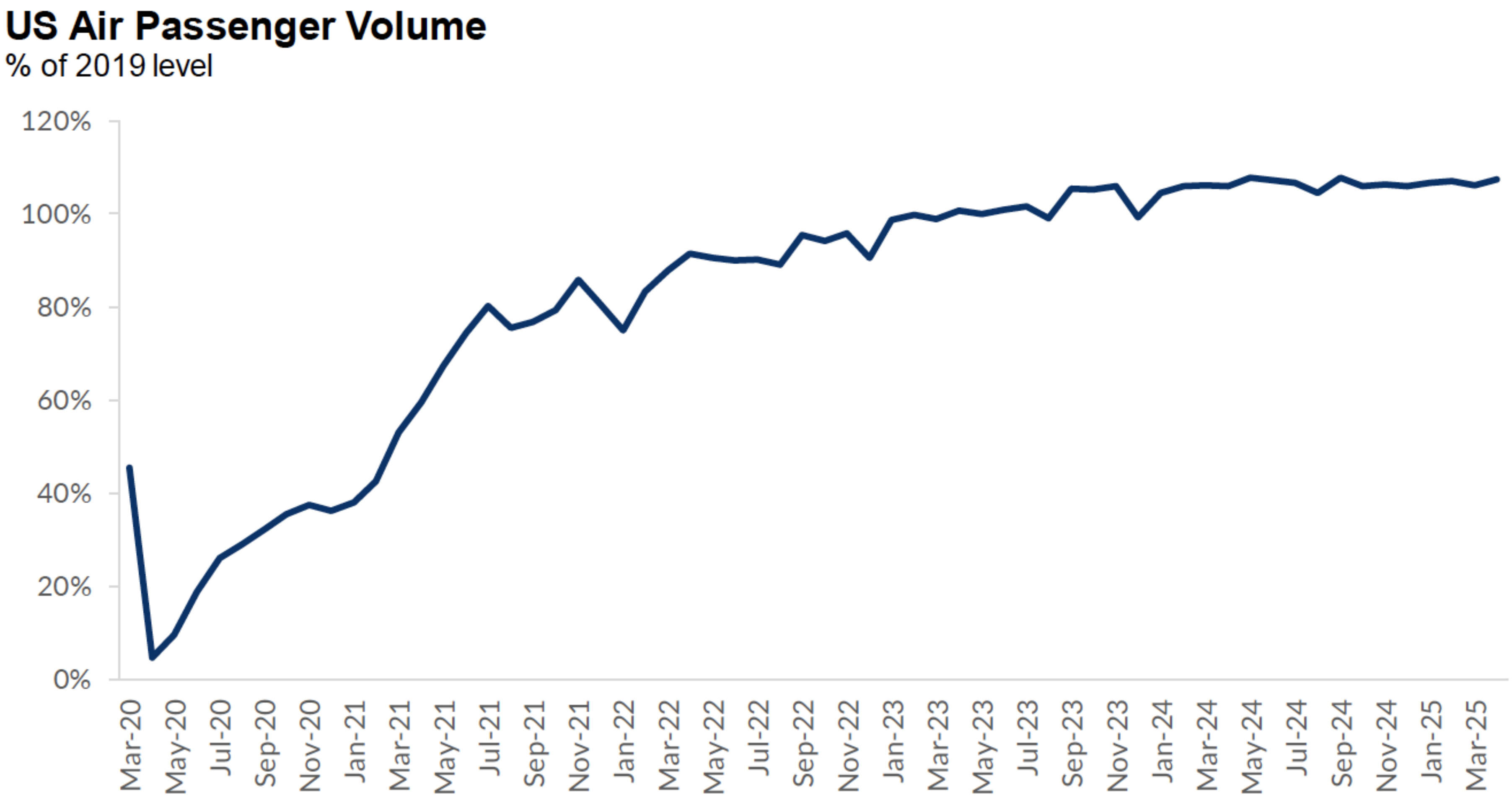

Sources: Tourism Economics, TSA, March 2025.

Hotel Segment RevPAR Forecast vs. 2019 Levels

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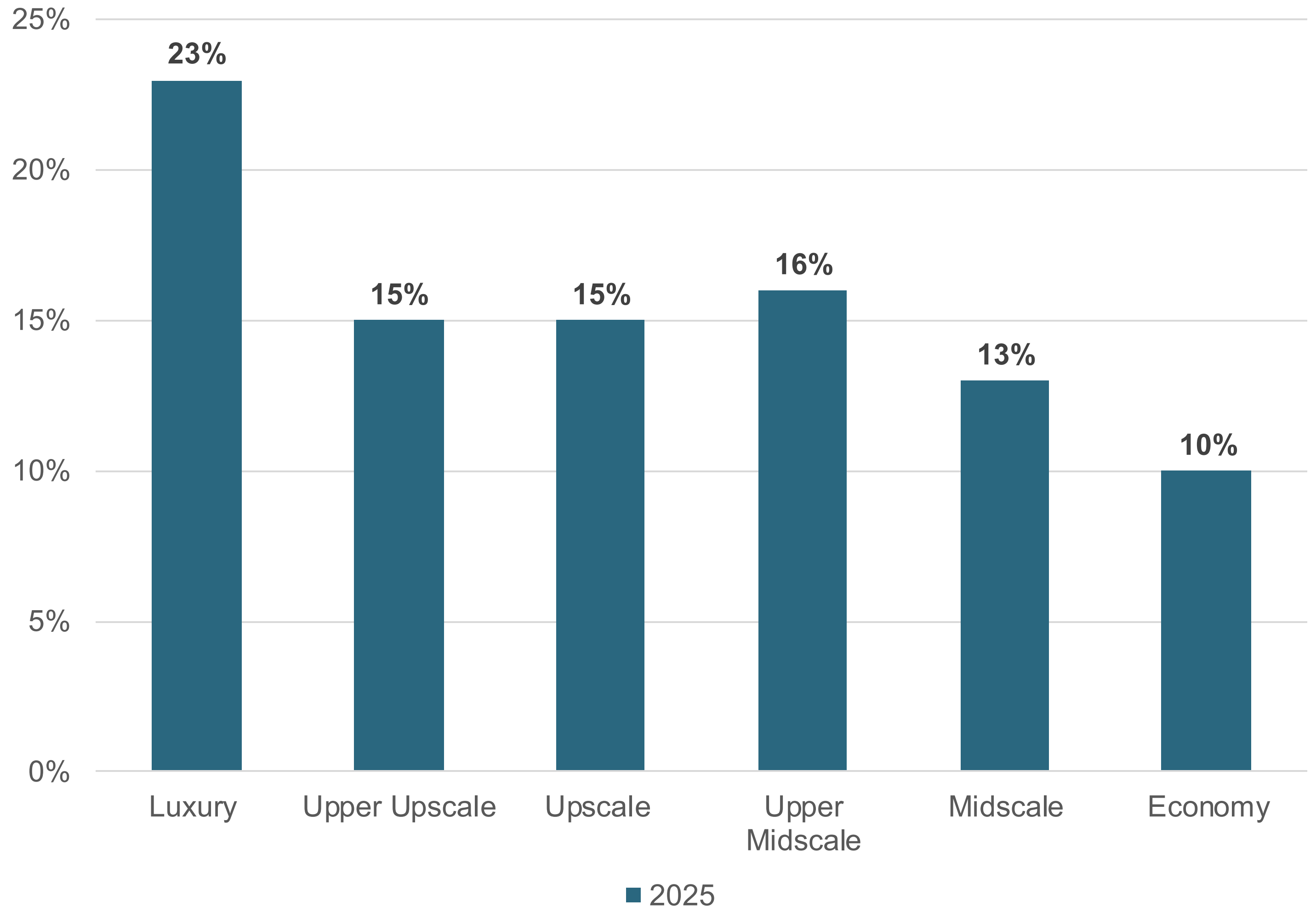
Key Insights

- In 2025, the strongest class relative to 2019 will be the Luxury segment, primarily **fueled by pricing power**.
- In 2025, all high-tiered segments are expected to exceed 2019 levels by 15% or more as **group travel and foreign inbound continue improving** with leisure demand increasing.



RevPAR: Revenue Per Available Room

1) Source: Lodging Analytics Research & Consulting, December 2024.

Room for Recovery: Demand Segment Outlook 2025-2029

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BUSINESS TRAVEL

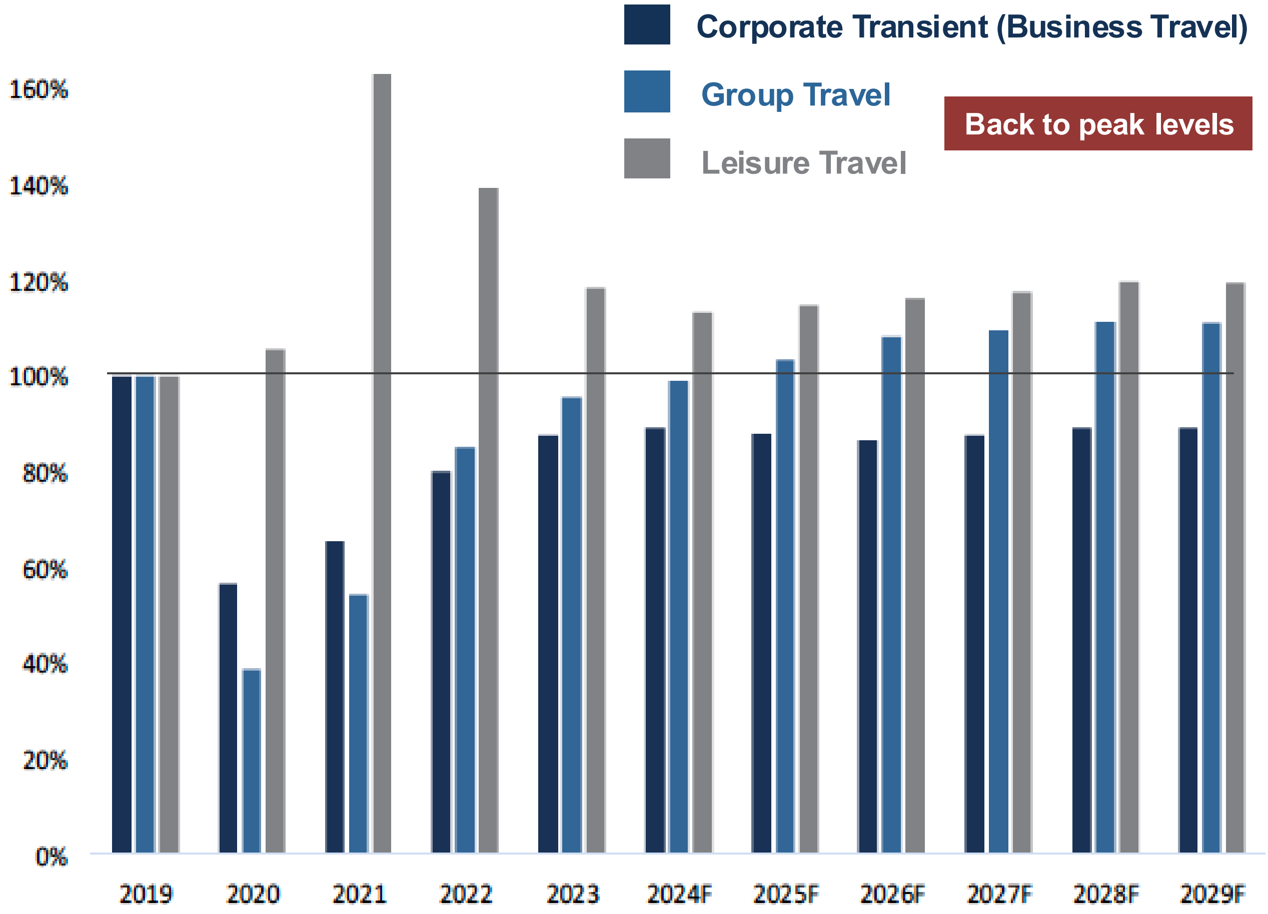
Corporate transient is expected to stabilize in 2025 at around 90% of 2019 levels.

GROUP TRAVEL

Group demand is expected to gradually improve through 2028, stabilizing above 2019 levels and **generating a base level of demand that will further support pricing power**.

LEISURE TRAVEL

Business travel is expected to stabilize in 2025 at around 90% of 2019 level. Leisure demand is expected to improve in 2025 and **will remain a larger component of demand moving forward than historically**.



LARC's 4Q-2024 Market Intelligence Reports Release Webinar. December 2024. Source: Lodging Analytics Research & Consulting, STR. 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.

ADR & RevPAR Growth, Occupancy Still Recovering

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ADR and RevPAR are expected to accelerate, driven by soft comparisons, strong group trends, and improving leisure demand. Hotel appreciation is projected to be resilient in 2025 as cap rates stabilize and the outlook for cash flow growth improves.

	2025 Forecast	2023-2026 CAGR	2023-2028 CAGR
Supply	0.9%	0.8%	0.8%
Demand	1.0%	0.8%	1.0%
Occupancy	0.0%	0.0%	0.2%
ADR	2.7%	2.1%	2.1%
RevPAR	2.7%	2.1%	2.3%
Hotel EBITDA	1.1%	-0.1%	0.8%
Hotel Values	3%	3%	2%

ADR: Average Daily Rate **RevPAR:** Revenue Per Available Room

1) Source: Lodging Analytics Research & Consulting, December 2024. 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.

RevPAR & Occupancy Outlook 2025 – 2027

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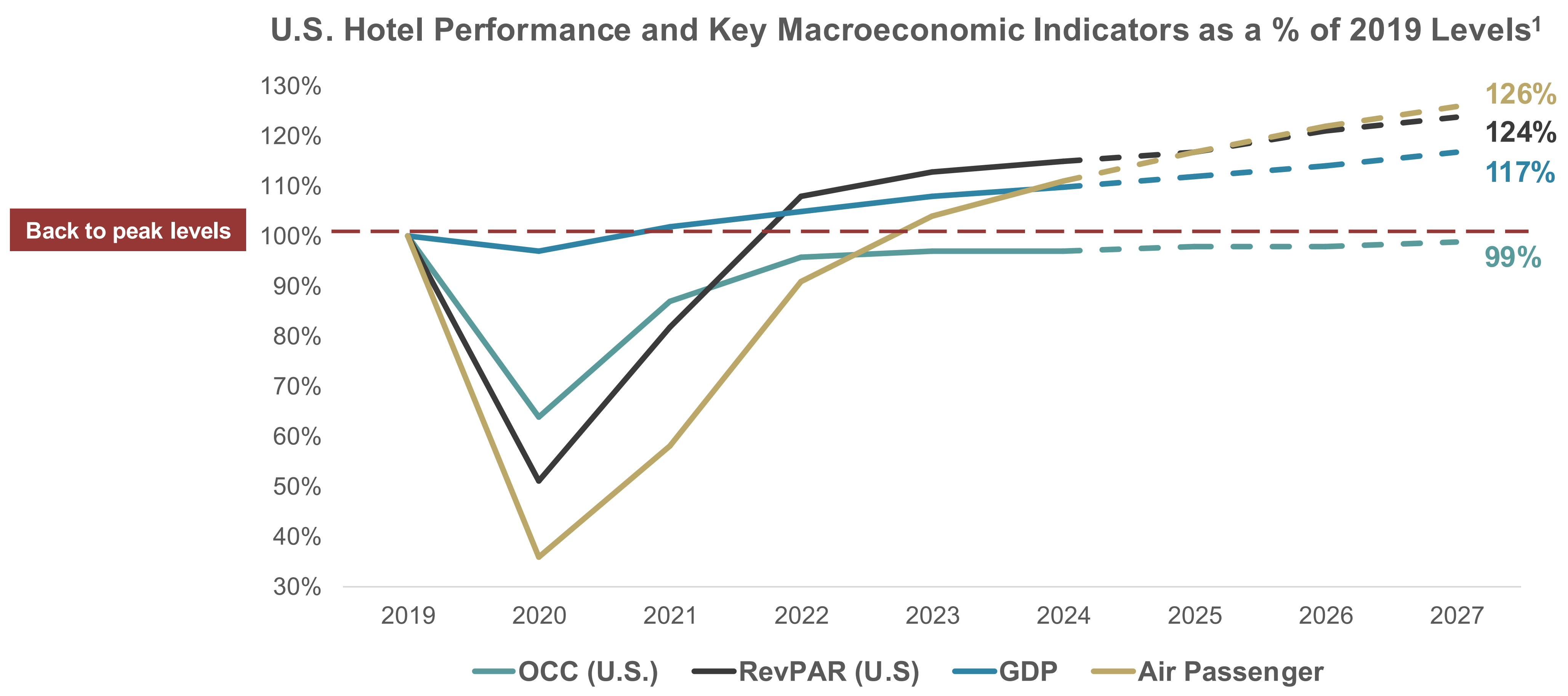
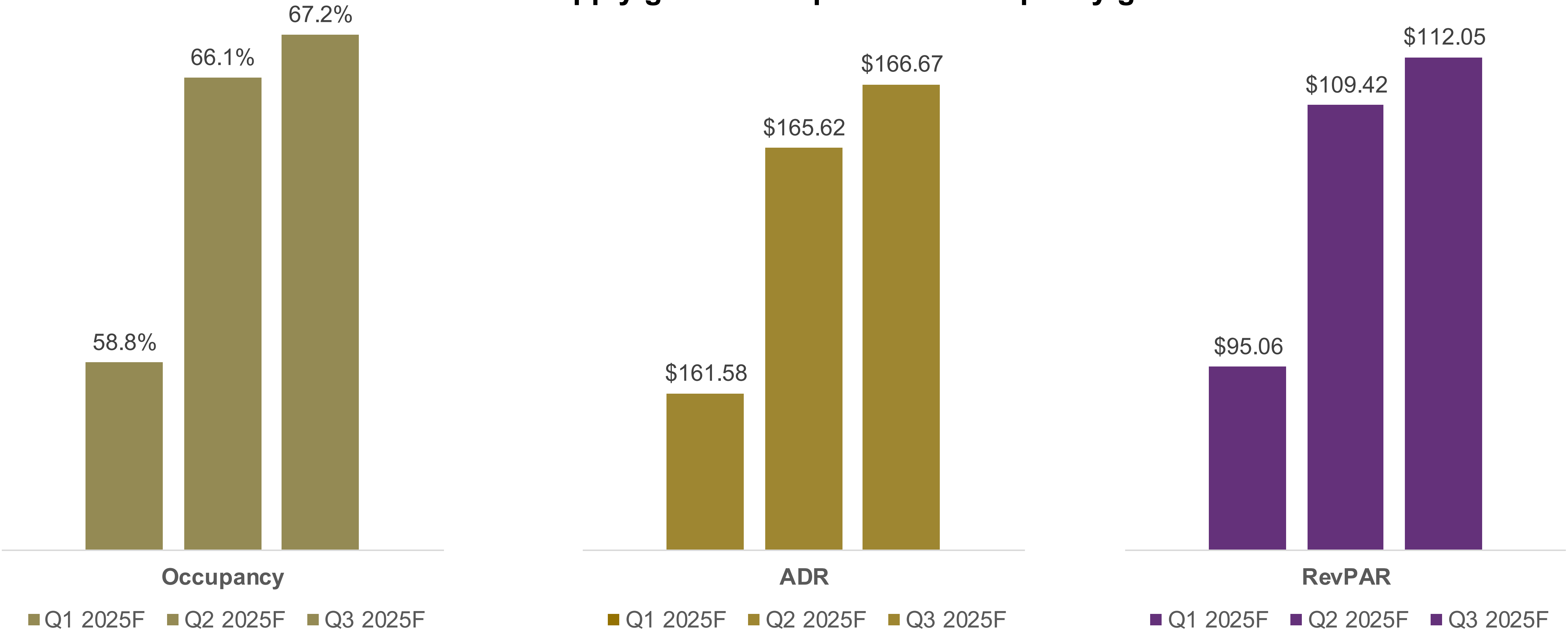


1) CBRE, 2024 Global Midyear Hotels Outlook, October 1, 2024. Source: STR, Kalibri Labs, CBRE Hotels Research, Oxford Economics, IATA, 2024. The forecasts provided were not produced by Ashford Securities or any of its affiliates. There can be no assurance that similar performance will be experienced or that the forecasts will be accurate.

Q1-Q3 2025 Lodging Outlook

Demand growth is forecasted to be positive in 2025, but limited supply growth will pressure occupancy growth.



Source: Lodging Analytics Research & Consulting, April 2025. 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.

Lodging Outlook (according to STR)

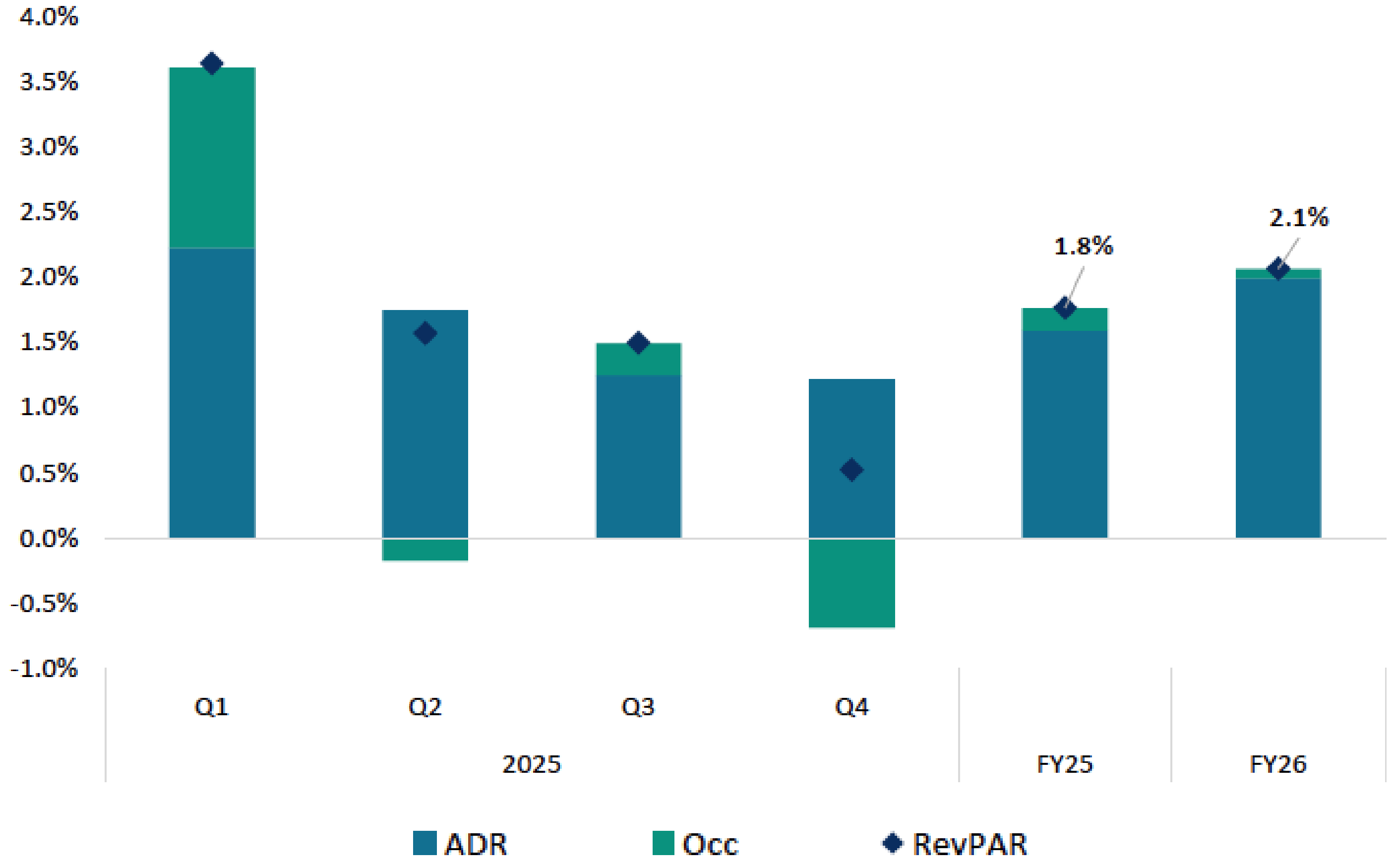
U.S. Industry Forecasts

U.S. FY Forecast (STR)[1]

	2025	2026
RevPAR	1.8%	2.1%
Occupancy	0.1 pts	0.0 pts
ADR	1.6%	2.0%
Supply	0.9%	1.3%
Demand	1.1%	1.4%

Note: LARC is forecasting 3.1% RevPAR growth for 2025 and 2026

US Industry Forecast 2025-2026 (STR)[1]



1) STR February 2025 Forecast. 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.

Lodging Outlook (according to LARC)

- Demand growth will be positive in 2025.
- 1Q 2025 will benefit from the Easter calendar shift and the tailwinds from pent-up demand tied to the 2024 general election.
- 2Q 2025 will then face headwinds tied to the Easter calendar shift and difficult comparisons from the solar eclipse.
- 3Q 2025 could benefit from improving leisure trends while 4Q 2025 faces difficult YoY comparisons partly tied to hurricane displacement impact across the southeast and Houston.

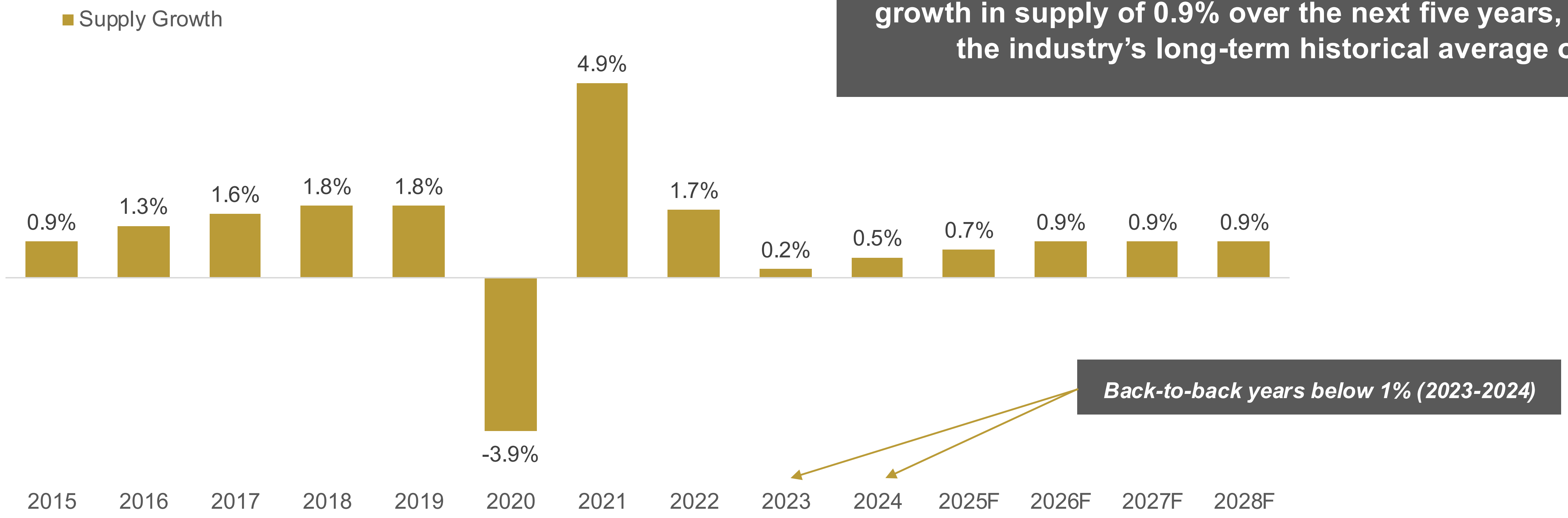
QUARTERLY FORECAST						
	Occupancy	**% Chg**	**ADR**	**% Chg**	**RevPAR**	**% Chg**
2024-1Q	58.3%	-0.9%	$154.88	2.0%	$90.29	0.1%
2024-2Q	66.8%	0.8%	$159.87	1.6%	$106.80	2.4%
2024-3Q	66.8%	-0.5%	$160.89	1.4%	$107.43	0.9%
2024-4Q	59.9%	1.7%	$158.46	1.9%	$94.99	3.6%
2024 (actual)	**63.0%**	**0.0%**	**$158.68**	**1.7%**	**$99.95**	**1.8%**
2025-1Q F	*58.8%*	*0.9%*	*$161.58*	*4.3%*	*$95.06*	*5.3%*
2025-2Q F	*66.1%*	*-1.1%*	*$165.62*	*3.6%*	*$109.42*	*2.5%*
2025-3Q F	*67.2%*	*0.7%*	*$166.67*	*3.6%*	*$112.05*	*4.3%*
2025-4Q F	*58.2%*	*-2.8%*	*$163.83*	*3.4%*	*$95.42*	*0.5%*
2025 F	***62.6%***	***-0.6%***	***$164.54***	***3.7%***	***$103.02***	***3.1%***
2026-1Q F	*59.3%*	*0.8%*	*$166.21*	*2.9%*	*$98.51*	*3.6%*
2026-2Q F	*66.1%*	*0.0%*	*$171.50*	*3.5%*	*$113.33*	*3.6%*
2026-3Q F	*68.6%*	*2.1%*	*$169.58*	*1.7%*	*$116.40*	*3.9%*
2026-4Q F	*58.0%*	*-0.5%*	*$166.34*	*1.5%*	*$96.41*	*1.0%*
2026 F	***63.0%***	***0.6%***	***$168.54***	***2.4%***	***$106.20***	***3.1%***

Source: Lodging Analytics Research & Consulting, CoStar, April 2025. 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.

Limited Supply Growth

ASHFORD

Lodging Industry Annual Net Supply Growth[1]



Likely due to financing headwinds and rising construction costs, LARC forecasts a compound annual growth in supply of 0.9% over the next five years, below the industry's long-term historical average of 2%.[1]

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.
1) Source: Lodging Analytics Research & Consulting (LARC), Q1 2025 Market Intelligence Report and April 2025 HAMA Spring Meeting.

2025 Travel Trend Outlook

80% of the **luxury leisure market** is made up of people below the age of 60 – younger travelers are showing an increasing willingness and ability to spend at luxury levels.

58% of travelers revisit childhood travel destinations when vacationing with their kids. **Nostalgia is shaping tomorrow's vacation** in many ways.

55% don't want to think about how much money they spend while traveling.

50% prefer **not to leave the hotel** for the entire vacation.

Source: Hilton, "2025 Hilton Trends Report", September 30, 2024.

Key Takeaways

- Fundamental shifts[1] in consumer behavior are driving a potentially **strong long-term travel and hospitality outlook**
- The convergence of loan maturities and renovation needs, combined with limited supply growth, has the **hotel industry** potentially poised for growth
- Retail investors have had limited options[2] to access hotels in private markets, potentially leaving them **under-allocated** to a dynamic real estate sector

1) Source: American Express Travel, 2023 Global Travel Trends Report. 2) Source: Stanger Investment Banking, Equity NAV REIT summary breakdown by sector, Sept 30, 2023.

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Capital Markets and Alternatives Insights

April 2025

Macroeconomic Outlook

Executive Summary

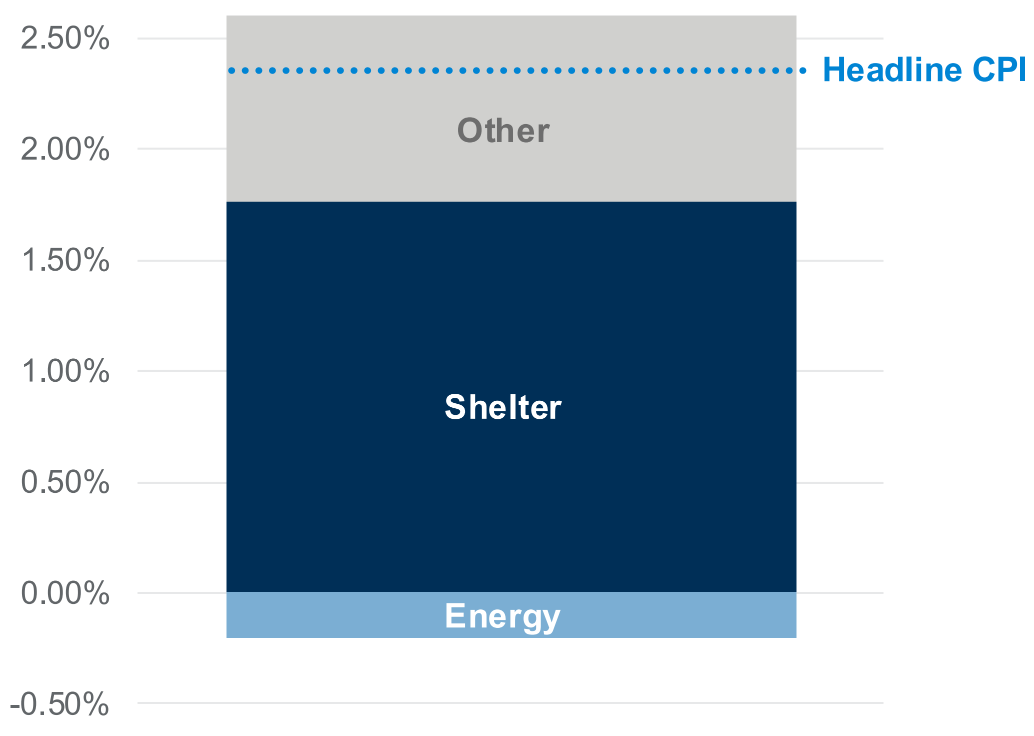
Macroeconomic and Capital Markets Outlook

Inflation has slowed, but tariff proposals may reignite modest inflation	The latest month-over-month inflation was negative and year-over-year numbers are near the Fed's 2% inflation target. However, goods may see a transitory spike in inflation driven by tariffs. Shelter and energy, other large drivers of inflation, are trending down.
The Fed will tread carefully in 2025	Given the tariff uncertainty, we expect the Fed to exercise caution in 2025, keeping the Fed Funds rate at or near 4% to avoid reigniting inflationary pressure, while monitoring closely for tariff-driven stagnation risk.
Extraordinary market volatility will likely benefit private alternatives such as private real estate and private credit	Unprecedented volatility in stock and bond markets is likely to drive investor demand for more stable portfolio diversifiers. Private real estate has already absorbed significant price declines and is attractively valued relative to stocks and bonds. Private credit can still capitalize on the higher interest rate regime.

[1] Bureau of Labor Statistics, year-over-year consumer price index

Inflation lowest in 4 years, but eyes are on tariffs and potential resulting upticks inflation

Contributions to CPI
As of March 2025



- Inflation has moderated, nearing the Fed's year-over-year target.
- Main components of inflation are shelter and energy, both of which are decreasing.
- Goods are only 10% of total inflation, and any increase may be transitory.

Sources: Bureau of Labor Statistics, March 2025

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The 60/40 Portfolio Continues to Underperform

The 60/40 portfolio is not doing well

The 60/40 portfolio has basically gone nowhere since the beginning of 2022, with only a 2% annual return for the past three and a half years.

Source: Apollo

Broad market volatility will benefit private alternatives

Investors will demand more stable portfolio diversifiers such as private real estate and private credit

Real Estate

- Long-term private real estate has **delivered substantially lower volatility** versus stocks and bonds
- Real estate is at low relative valuations versus equities and fixed income, and **we see attractive entry points** in many commercial real estate sectors
- Real estate is **well-positioned regardless of inflation trend;** real estate has historically outperformed in inflationary environments, and disinflation can spur lower cost of capital and higher valuations

Private Credit

- We see **selective opportunities in private credit** as a shifting economic environment provides a favorable backdrop for active management
- Overleveraged real estate transactions from peak pricing may bring **opportunities for unconventional financings**, including recapitalizations and mezzanine debt
- We believe **alternative credit may be the most attractive** way to access these opportunities with higher yields and relatively low downside risk.

[1] NCREIF Property Index, Green Street Commercial Property Price Index, Costar transaction data

Private Real Estate Outlook

Executive Summary

Private Real Estate Outlook

Inflation-adjusted real estate values are at 15-year lows	Real estate values turned positive during Q4 2024, signaling the start of a pricing rebound following the correction over the previous two years.[1] With transaction volumes ticking up, we expect a strong multi-year recovery, consistent with previous real estate cycles.
Supply constraints and increasing construction costs may drive real estate valuations higher	Increased construction costs are limiting new supply of real estate deliveries. However, performance diverges widely by property type and geography making experienced active management critical to performance. Our highest conviction sectors include industrial, single-family rentals, and specialty sectors. Increasing transaction volumes may accelerate and extend upwards price movement.
Wider real estate spreads and extended refinancing periods may create credit investing opportunities	Real estate credit investors can capitalize on attractive yields vs. the bond market, and the extension of loan maturities opens up additional opportunities in credit refinancing and recapitalization.

[1] NCREIF Property Index

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Inflation-adjusted real estate values are near 30-year lows

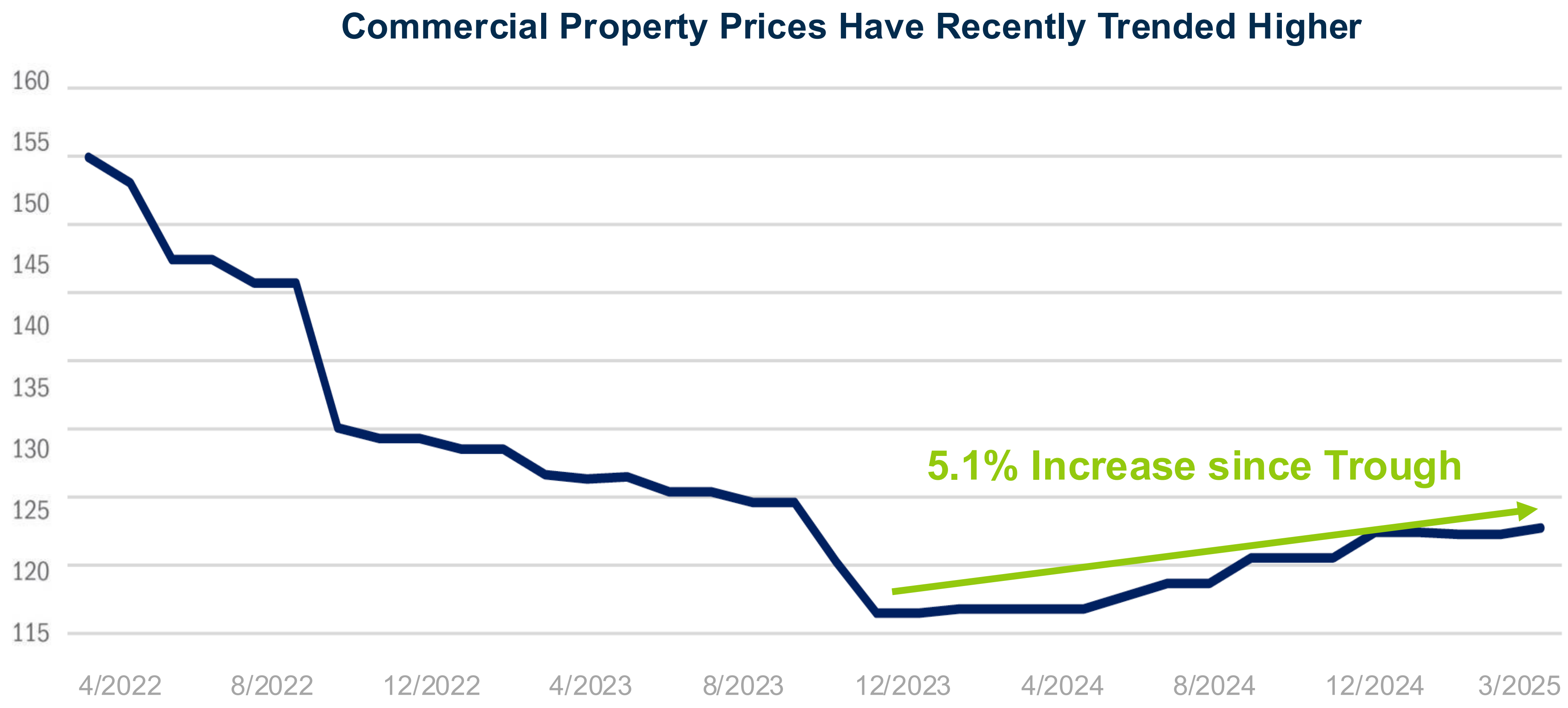
NPI Capital Value Index (Inflation Adjusted)
Q4 1994 – Q4 2024

The fourth quarter of 2009 was the trough of the Financial Crisis decline, possibly ***the most attractive property investment entry point in the entire post-war period***

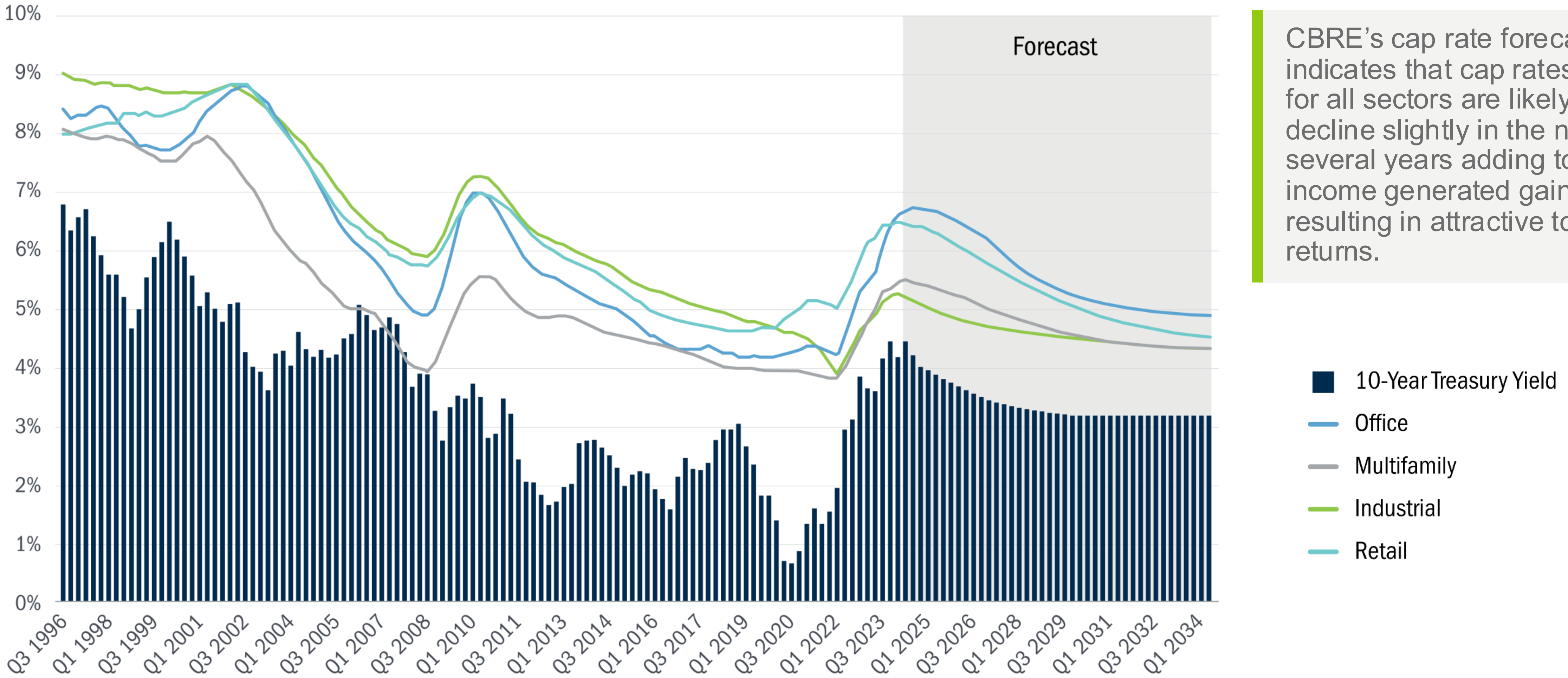
Source: NCREIF. NPI is the National Council of Real Estate Investment Fiduciaries Property Index. You can not invest in an index. Index data does not reflect the deduction of fees and other expenses which would reduce returns. Past performance is not indicative of future results.

Inflation Adjusted (=100 in Q4 1994)

Private real estate pricing is rebounding



Private real estate is poised for a long bull run



CBRE's cap rate forecast indicates that cap rates for all sectors are likely to decline slightly in the next several years adding to income generated gains resulting in attractive total returns.

Source: CBRE, August 2024

Alternative Private Credit Outlook

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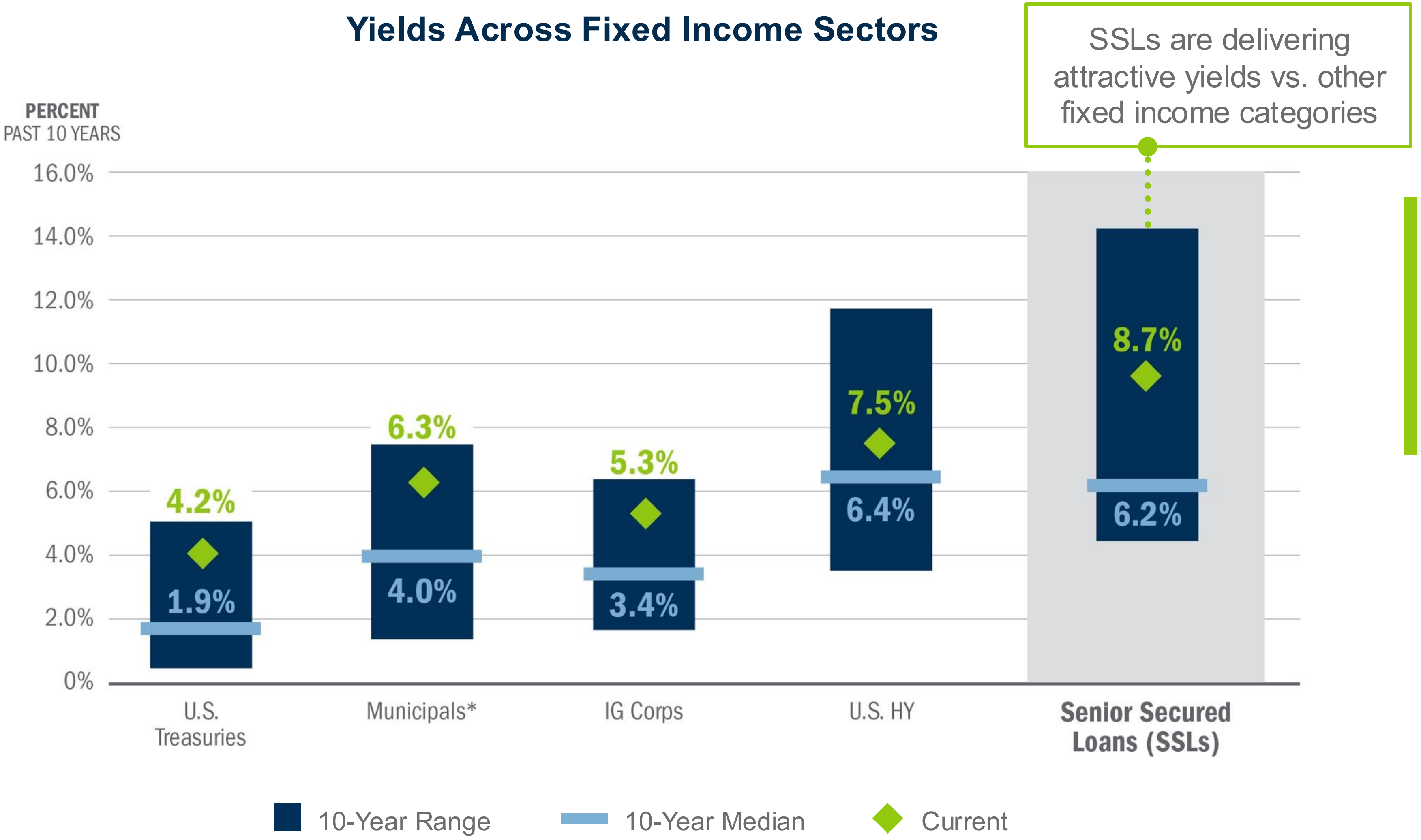
Executive Summary

Alternative Private Credit Outlook

Loan market fundamentals are strong	Larger companies have recently performed better than smaller companies providing a better cushion against defaults and losses[1]
Yields continue to remain elevated vs. recent historical standards	Yields across many fixed income markets are attractive, particularly senior secured loans.[2]
Amidst a moderating rate environment, fixed income asset class selection is critical	Certain fixed income categories perform particularly well in declining rate environments, such as senior secured loans.[2]

[1] Morgan Stanley The Road Ahead, Private Credit in 2025
[2] JP Morgan Guide to the Markets, Q4 2024

Fixed income continues to deliver strong yields



Current yields are still near their highest levels in the past decade, illustrating that some fixed income categories continue to offer meaningful income

Source: JPMorgan Guide to the Markets 4Q 2024.

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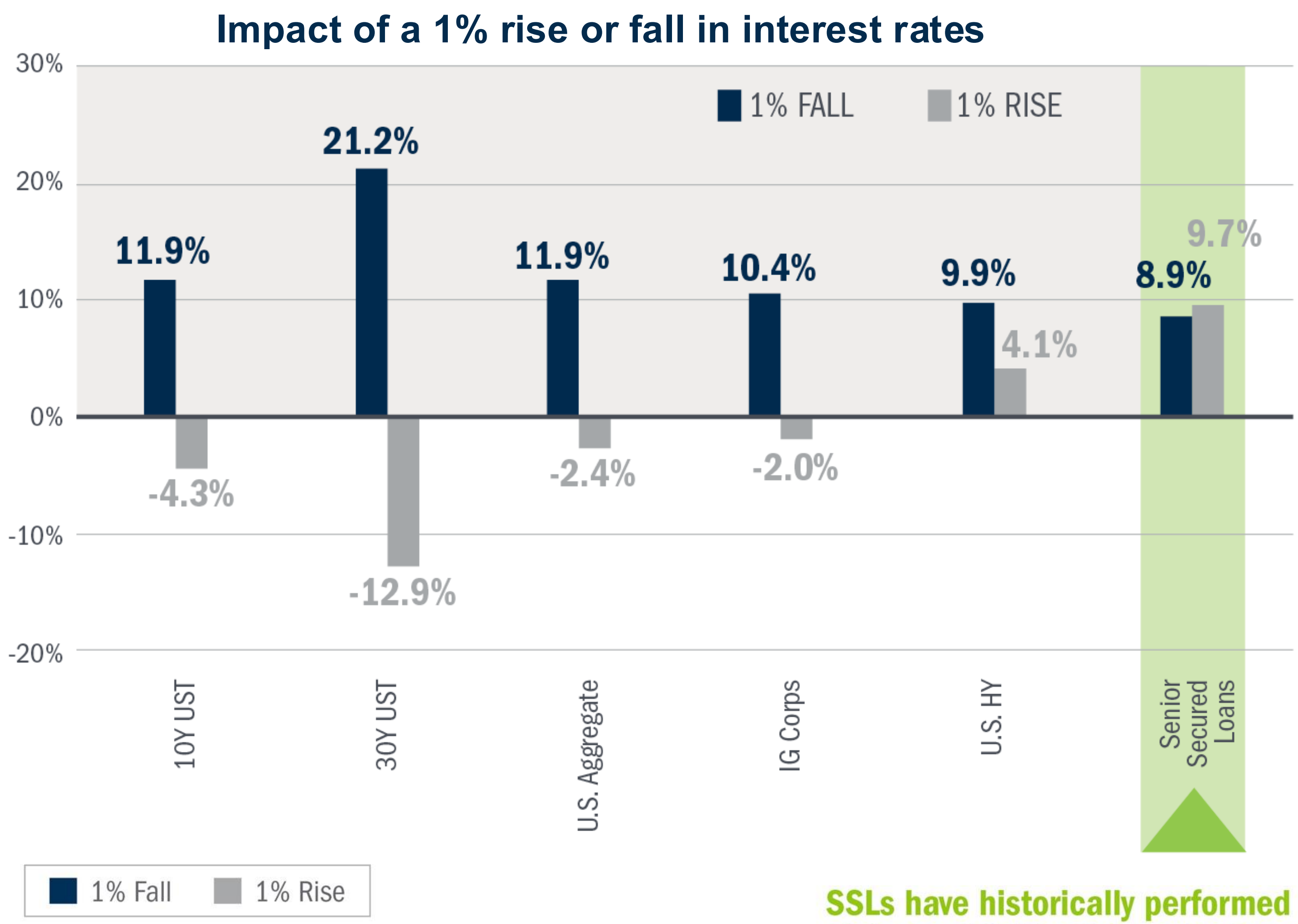
Fixed income asset class selection critical in today's environment



Floating rate senior secured loans historically deliver meaningful positive returns in both rising and falling rate environments

SSLs have historically performed well in both rising and falling interest rate environments

Source: JPMorgan Guide to the Markets 4Q 2024, Total return, assumes a parallel shift in the yield curve.

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SSL default rates historically less than 50% of high yield bonds

Historically, senior secured loans have experienced substantially lower default rates than high yield bonds.

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

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Alternative private credit is a compelling standalone allocation or an attractive complement to traditional private credit

Large Corporate Borrower Focus

- Exposure to large, established and well-known corporate borrowers
- Direct lending funds tend to dominate middle market private equity-backed

Diversification Benefits

- Minimal overlap of holdings with traditional private credit funds.
- Traditional private credit funds tend to have high levels of overlap in their holdings given their smaller market size.

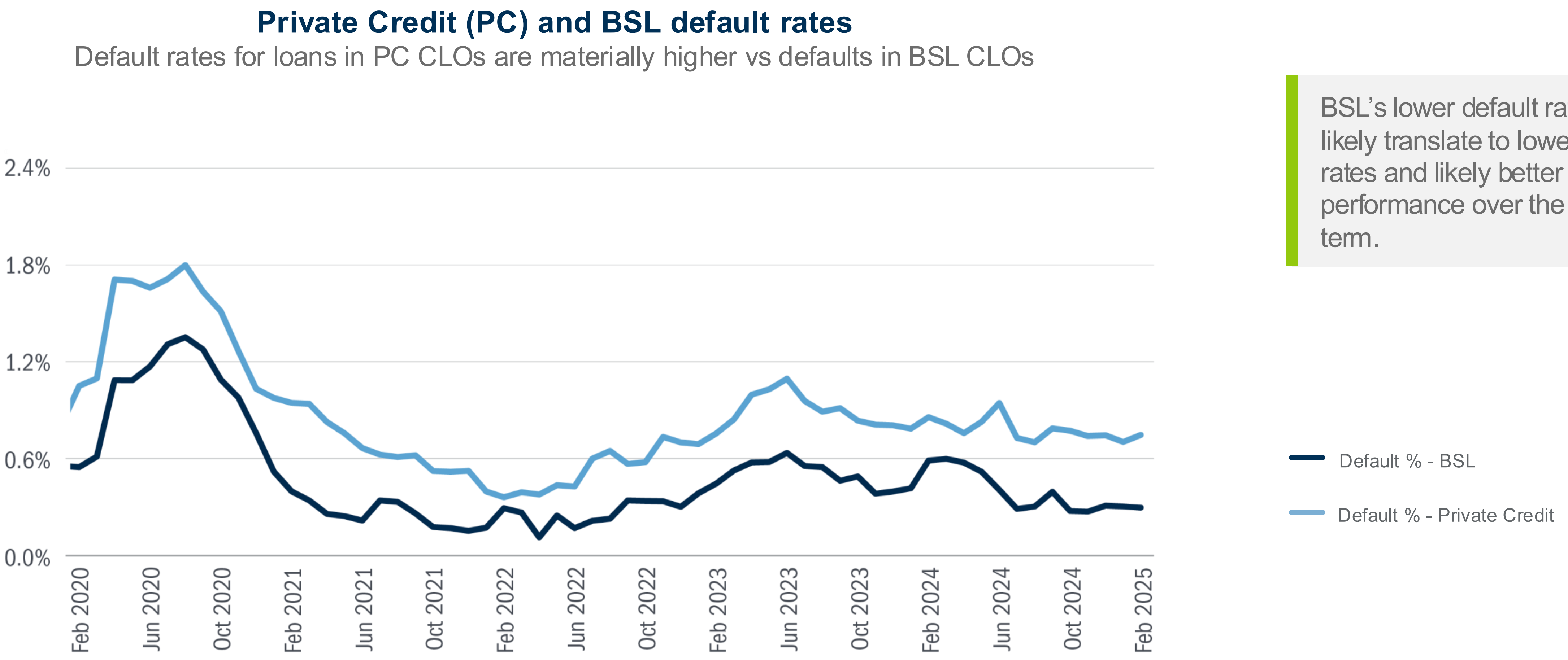
Secondary Market Access

- The secondary market for large corporate borrowers is active and liquid allowing for ample active management,
- Middle-market loans must be held to maturity and have no liquidity.

Active Management & Liquidity

- Structured credit investments are generally liquid and allow the managers to actively allocate based on value and performance trends to maximize returns.

BSLs have lower default rates than traditional private credit



BSL's lower default rates likely translate to lower loss rates and likely better performance over the long term.

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CANTOR

CANTOR PERSPECTIVES

June 1, 2025

AI's Infrastructure Revolution: A New Golden Age of Investment

Artificial Intelligence (AI) has already begun to significantly impact workplaces, creative products, and society, while we are still just in the first wave of mainstream AI adoption. We believe AI is quickly becoming a new Industrial Revolution that will transform nearly every aspect of economic activity as it becomes more sophisticated, capable, and user-friendly. While much of the focus is on hyperscalers—companies committing tens of billions to data center investments—we see compelling opportunities in financing, building, and operating the critical infrastructure that underpins AI, without needing to bet on which tech giants will ultimately prevail.

The Infrastructure Gap

AI needs extensive supporting infrastructure to deliver on its potential, requiring significant investments in the construction of data centers, power generation, and transmission mechanisms for both water and power (electricity).

Even as AI becomes more efficient through decentralized, open-source models, aggregate demand continues to surge.[1] This is a classic example of Jevons Paradox: greater efficiency lowers the cost of AI, accelerating adoption and ultimately increasing total consumption. This, in turn, can heighten the demand for the infrastructure required to support it—particularly power and water.

We believe this convergence of secular AI-driven demand and cyclical repricing in commercial real estate and infrastructure has created a compelling entry point. As traditional CRE markets show signs of bottoming and infrastructure capital needs balloon, opportunities are emerging across energy, logistics, and digital infrastructure.

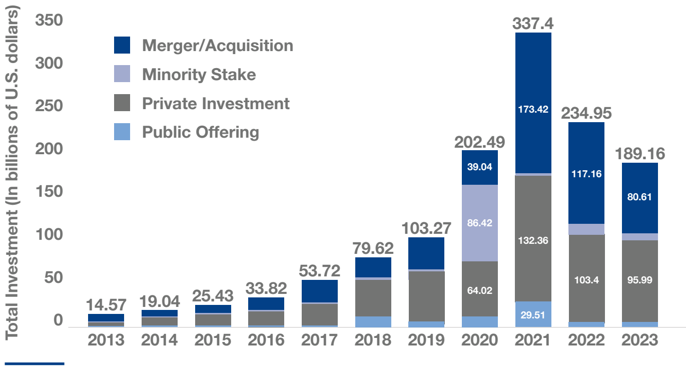
Today's investors can access these opportunities through a range of structures including semi-liquid '40 Act funds, private funds, exchange traded products, and direct securities. These options enable customized, risk-adjusted portfolio construction that captures both resilience and growth.

Data Center Construction

Data center need is often measured in megawatts (MW) or gigawatts (GW). But data centers also require conversions or new construction, creating the potential for CRE plays for investors. In the first six months of 2024 alone, 78 data center projects began construction ($9 billion in estimated aggregate project cost and almost 12 million square feet).[2]

Historically, AI drove nearly $1.3 trillion in investment between 2013 and 2023.[3] Over the next three to five years, large operators are expected to increase their spending on improving existing data center operations by more than 50%, as well as a six-fold increase in new construction.[2]

FIGURE 1
Global Corporate Investment in AI

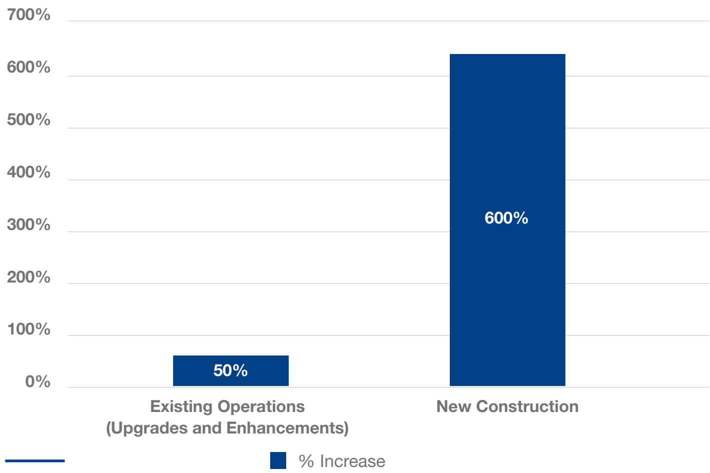


Source: 2024 AI Index Report, Stanford University[2]

[1] Stanford University, "2024 AI Index Report," p. 242. (https://aiindex.stanford.edu/wp-content/uploads/2024/05/HAI_AI-Index-Report-2024.pdf)
[2] Dodge Construction Network, "The Expansion Explosion: Insights Into the Current Data Center Boom," 4 September 2024 (https://www.construction.com/blog/the-expansion-explosion-insights-into-the-current-data-center-boom/)
[3] Stanford University, "2024 AI Index Report," p. 242. (https://aiindex.stanford.edu/wp-content/uploads/2024/05/HAI_AI-Index-Report-2024.pdf)

FIGURE 2

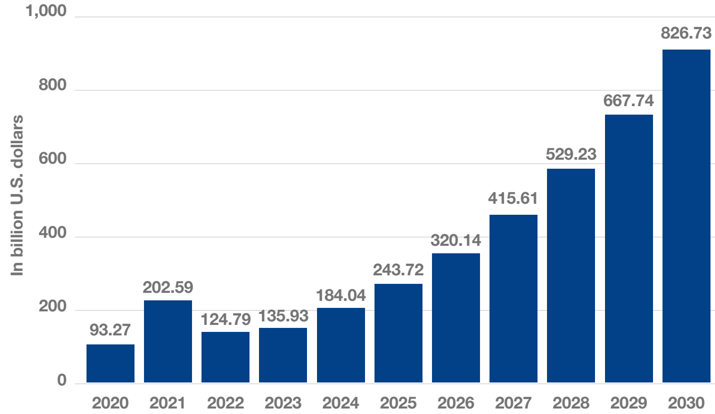
Planned Increases in Data Construction



Source: AFCOM[4]

FIGURE 3

Artificial Intelligence Market Size Worldwide from 2020 to 2030



Source: Statista[10]

AI plays a significant part in this growth. AI capabilities are driven by Large Language Models (LLMs), and training LLMs consume enormous amounts of computational power, storage, and networking capabilities. The training data set used to train models like OpenAI's GPT-4 can consist of a petabyte of data or more, which equates to one thousand higher-end consumer one terabyte (TB) hard drives.[5]

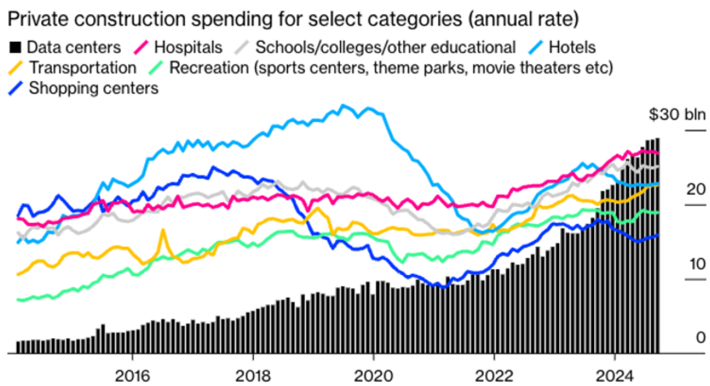
Recent public announcements related to AI infrastructure investment have been staggering:

- The recently announced Stargate Project, led by Oracle, OpenAI, SoftBank and MGX, committed $500 billion of new investment in data center infrastructure over the next four years in the U.S.[6]
- Microsoft is on track to invest approximately $80 billion to build out AI-enabled data centers with more than half of this total investment to be in the U.S. in fiscal year 2025.[7]
- Social media giant Meta announced plans to spend $60 to $65 billion on capex in 2025, close to double its 2024 spend, with the primary focus on data centers and servers.[8]
- Global data center electricity consumption is expected to increase to around 945 terawatt-hours by 2030, according to a report by the International Energy Agency.[9]
- At a 24% Cumulative Average Growth Rate (CAGR) (2024-2030), AI's total global market size could exceed $1 trillion by 2030.

Global spending on data centers is on track to reach $250 billion a year according to KKR.[11] In the U.S., investments in data centers already exceed major core categories of CRE construction, more than doubling in just two years.

FIGURE 4

U.S. Infrastructure Spending



Source: Bloomberg News[12]

[4] AFCOM, "Eighth Annual State of the Data Center Industry Report Reveals How Power Design and AI Demand Has Forever Changed the Industry," 20 February 2024 (https://www.businesswire.com/news/home/20240220636439/en/Eighth-Annual-State-of-the-Data-Center-Industry-Report-Reveals-How-Power-Design-and-AI-Demand-Has-Forever-Changed-the-Industry)
[5] Deepcheck, "GPT-3.5 vs. GPT-4: Unveiling the Power of the Next-Generation Language Models,"26 June 2023. (https://www.deepchecks.com/gpt-3-5-vs-gpt-4-unveiling-the-power-of-the-next-generation-language-models)
[6] AP News, "Trump highlights partnership investing $500 billion in AI." 22 January 2025 (https://apnews.com/article/trump-ai-openai-oracle-softbank-son-altman-ellison-be261f8a8ee07a0623d4170397348c41)
[7] The Golden Opportunity for American AI, January 3, 2025 (https://blogs.microsoft.com/on-the-issues/2025/01/03/the-golden-opportunity-for-american-ai/)
[8] Meta plans $60-65bn capex on AI data center boom, will bring ~1GW of compute online this year (https://www.datacenterdynamics.com/en/news/meta-plans-60-65bn-capex-on-ai-data-center-boom-will-bring-1gw-of-compute-online-this-year/)
[9] "Energy and AI," International Energy Agency, 2025. (https://www.iea.org/reports/energy-and-ai/executive-summary)
[10] Statista, "Artificial intelligence (AI) market size worldwide from 2020 to 2030," November 28, 2024. (https://www.statista.com/forecasts/1474143/global-ai-market-size)
[11] Bloomberg News, "KKR Sees $250 Billion Spent Annually From Data Center Boom," 1 November 2024 (Subscription Required)
[12] Bloomberg News, "AI Takeoff Turns Data Centers Into America's New Building Boom," 8 November 2024 (Subscription Required)

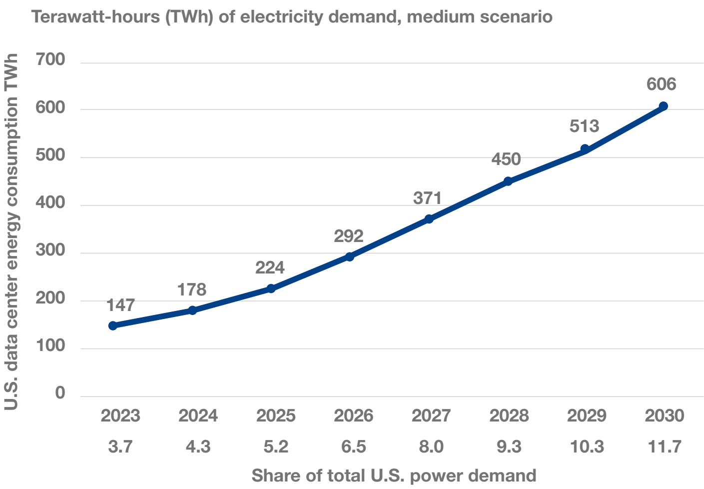
Power Generation and Transmission

LLMs also demand considerable amounts of electrical power, with each query drawing more than 10 times the amount of electricity needed for a Google search. Annual energy consumption for ChatGPT alone is estimated to reach 226.8 GWh, enough to power well over 20,000 U.S. homes for a year.[13] Open AI's ChatGPT is only one of many applications using LLMs, which also include Anthropic's Claude, Google Gemini, and Perplexity's PerplexityAI chatbot, among many others.

Estimates by McKinsey & Company project a more than 250% increase in U.S. electricity demand (amount of electricity used) between 2025 and 2030, even as data centers become more energy efficient. Meeting that need requires both power generation and power transmission infrastructure.

FIGURE 5

Total Power Demand Per Year

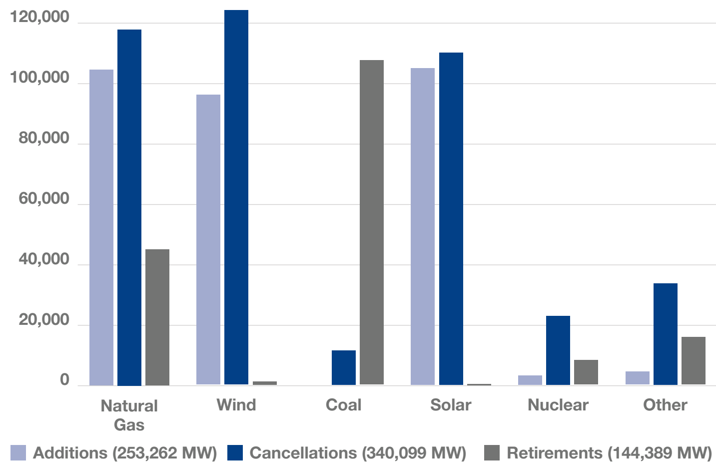


Source: McKinsey & Company[14]

Additional McKinsey analysis projects that even if all currently known energy plants were delivered on time, there could still be a capacity deficit (the amount of power able to be generated) of more than 15 GW in the United States by 2030 as older plants go offline and new (often cleaner) plants are built to replace them.[15] That figure is more than 10% of the net capacity added between 2016 and 2023. New power plants frequently take several years from project approval to going online. Tariffs may also raise the cost for U.S. renewables generation since many components are sourced from China. For these reasons, it is very probable that renewable sources alone will not suffice. Meeting extensive power demand quickly is anticipated to take tapping into nuclear, natural gas, and even coal generation, delaying plans to retire high-emissions facilities.

FIGURE 6

Net Power Capacity Additions. U.S.

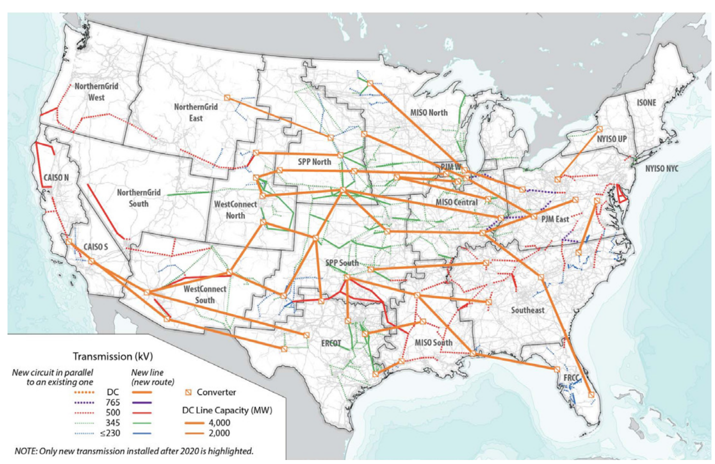


Source: The American Public Power Association[16]

In addition to power generation, plants and data centers must be connected to the U.S. electrical grid. Doing so can be challenging when plants are built far from population centers, which is typical, especially with clean energy sources like wind and solar. Reinforcing the electrical grid in the U.S. is estimated to take more than 47,300 miles of new transmission lines between 2030 and 2035, a 57% increase from 2023.[17] Data centers and the race for AI leadership are playing a notable role in these demands on the overall energy infrastructure, either by tapping into the grid or seeking direct connections to power plants.[15]

FIGURE 7

New Transmission Lines by 2035, U.S.



Source: National Transmission Planning Study[18]

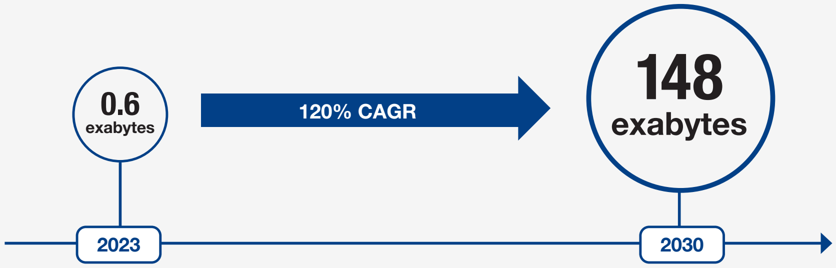
[13] RW Digital, "How Much Energy Do Google Search and ChatGPT Use?", 31 October 2024. (https://www.rwdigital.ca/blog/how-much-energy-do-google-search-and-chatgpt-use)
[14] McKinsey & Company, "How data centers and the energy sector can sate AI's hunger for power." 17 September 2024 (https://www.mckinsey.com/industries/private-capital/our-insights/how-data-centers-and-the-energy-sector-can-sate-ais-hunger-for-power)
[15] McKinsey & Company, "AI power: Expanding data center capacity to meet growing demand," 29 October 2024 (https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/ai-power-expanding-data-center-capacity-to-meet-growing-demand)
[16] The American Public Power Association, "America's Electricity Generation Capacity, 2024 Update," April 2024, (https://www.publicpower.org/system/files/documents/Americas-Electricity-Generation-Capacity-2024.pdf)
[17] U.S Department of Energy, "National Transmission Needs Study." February 2023 (https://www.energy.gov/sites/default/files/2023-02/022423-DRAFTNeedsStudyforPublicComment.pdf)
[18] National Renewable Energy Laboratory, "National Transmission Analysis Maps Next Chapter of US Grid Evolution," 3 October 2024 (https://www.nrel.gov/news/features/2024/national-transmission-planning-study.html)

Bandwidth Availability

AI will likely increase demand for broadband (wired and mobile) access. Users will look for fast, low-latency access to new AI applications.

FIGURE 8

Monthly AI-enriched network traffic growth forecast from 2023 – 2030



Source: Omdia[19]

We anticipate AI will also support the adoption of other technologies, such as augmented and virtual reality, which require a high-fidelity user experience, and the Internet of Things, which requires internet access for each connected device.[19]

FIGURE 9

U.S. Broadband and 5G Coverage by Area Type (2023)

		Fixed 100/20 Mbps Including Fixed Wireless		Fixed 100/20 Mbps Excluding Fixed Wireless		Mobile 5G-NR Minimum 35/3 Mbps			Mobile 5G-NR Median 35/3 Mbps	
	Pop. Evaluated	Pop.	%	Pop.	%	Pop.	%	Pop. Evaluated	Pop.	%
United States	336.9mm	312.5mm	92.8%	304.5mm	90.4%	306.7mm	91.0%	309.0mm	286.3mm	93.8%
Rural Areas	68.0mm	49.0mm	72.0%	43.2mm	63.5%	43.8mm	64.3%	46.9mm	33.3mm	70.9%
Urban Areas	268.9mm	263.5mm	98.0%	261.3mm	97.2%	262.9mm	97.8%	258.1mm	253.0mm	98.0%

Source: Source: Federal Communications Commission[20]

While high bandwidth fixed and mobile connections are readily available in urban areas, significant gaps in rural areas will need to be addressed. In addition, AI-powered apps could push uplink traffic beyond current 5G capacity by 2027.[21]

Building out a 5G mobile network in the U.S. took over $700 billion of cumulative investment between 2018 and 2023.[22] While cost estimates for 6G do not yet exist, it is highly probable that full network buildout, including fiber optic cables, cell towers, spectrum, edge computing facilities (which bring some of the workload closer to the end user), and maintenance, will equal or exceed 5G.

[19] Cited in Ciena, "Networks will shape the future of Artificial Intelligence," 4 August 2024. (https://www.ciena.com/insights/blog/2024/networks-will-shape-the-future-of-artificial-intelligence)

[20] Federal Communications Commission, "2024 SECTION 706 REPORT," 14 March 2024 (https://docs.fcc.gov/public/attachments/FCC-24-27A1.pdf)

[21] "AI is increasing 5G traffic. Signs point toward 6G as the answer," Fierce Network, 6 September 2024. (https://www.fierce-network.com/cloud/ai-reshaping-5g-traffic-are-networks-ready-surge)

[22] CTIA, "5G in America," no date provided. (https://www.ctia.org/the-wireless-industry/5g-in-america)

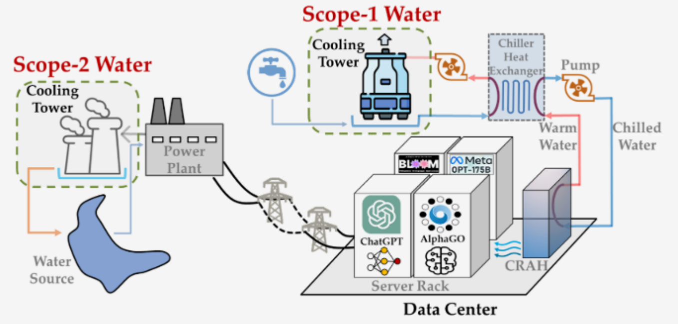
Water

Water plays a surprising role in the infrastructure needs for AI. Both data centers and power plants place demand on access to water for cooling. U.S. demand may require between two and three billion cubic meters of water in 2027 to support AI workloads.[23] ChatGPT (using OpenAI's GPT-4 models) alone uses the equivalent of a 16-ounce water bottle to respond to complex queries of five or more questions.

While water usage may decline over time as data centers and processors become more efficient, we expect the AI revolution to create new infrastructure needs across water transport, recycling, and waste disposal.

FIGURE 10

Water Usage in AI Data Center Cooling Systems: Scope-1 and Scope-2 Impacts



Source: OECD Policy Observatory[24]

Cybersecurity

We believe the proliferation of data, applications, servers, and technology used to support infrastructure creates a complementary investment opportunity in public or privately held cybersecurity companies. Unfortunately, AI itself will empower more bad actors to carry out more sophisticated attacks. By 2026, most advanced cyber attackers will employ AI to execute attacks that can adapt dynamically to defensive measures.[25] Global cybersecurity spending is expected to grow by 33% to $272 billion between 2025 and 2030.[25] This rapid growth will create enormous opportunity across cybersecurity software, hardware, and solution providers, especially innovators that can meet escalating threats from AI-enabled phishing, deepfakes, and malware.

Key Takeaways

AI, like the main actor in a film, is getting most of the attention, but real estate, energy, water, cybersecurity, and other infrastructure are the production team and supporting cast without which the film never gets made. All present compelling, often intertwined, investment opportunities which may result in a sort of gold rush. During historical gold rushes, suppliers of essential equipment prospered. With AI, financing, building, and operating critical infrastructure may offer attractive investment potential that does not require placing a bet on which AI companies will ultimately dominate.

Unlike directly investing in technology companies, these investments tap into the typical diversification benefits of infrastructure supported by the AI megatrend.

- They often aim to generate steady, predictable cash flows through long-term contracts.
- Infrastructure assets often have natural monopolistic characteristics and high barriers to entry, providing some protection against competition.
- The essential nature of these assets can provide a hedge against inflation since services remain necessary with lower dependencies on economic conditions.

The key is to focus on assets that are positioned to benefit from AI's growing integration into the U.S. and broader global economy, the physical real estate to support the growth, and the growing energy demands required to fuel the innovation, while preserving the diversification benefits that make infrastructure attractive as an asset class.

[23] OECD Policy Observatory , "How much water does AI consume? The public deserves to know," 30 November 2023 (https://oecd.ai/en/wonk/how-much-water-does-ai-consume)
[24] OECD Policy Observatory , "How much water does AI consume? The public deserves to know," 30 November 2023 (https://oecd.ai/en/wonk/how-much-water-does-ai-consume)
[25] Palo Alto Networks, "The Convergence of Cybersecurity and AI: 7 Game-Changing Predictions for 2025," no date. (https://www.paloaltonetworks.com/why-paloaltonetworks/cyber-predictions)

Important Disclosures

This commentary has been prepared by Cantor Fitzgerald Asset Management (CFAM) for use with investors and financial professionals who are each expected to make their own investment decisions.

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CAPITAL SQUARE

CAPITAL SQUARE

An Investment Case for Qualified Opportunity Zone Funds: Program Analysis & Markers of Success

KEY TAKEAWAYS

- Opportunity zones were created as part of the Tax Cuts and Jobs Acts of 2017 to stimulate long-term private investments in low-income urban and rural communities. By providing tax benefits, opportunity zone investments promote economic growth.
- Qualified opportunity zones have generated an enormous amount of economic activity nationwide.
- Independent, third-party analysis has revealed the dramatic impact of opportunity zone developments.

The success of nine OZ developments is a case study for the nation.

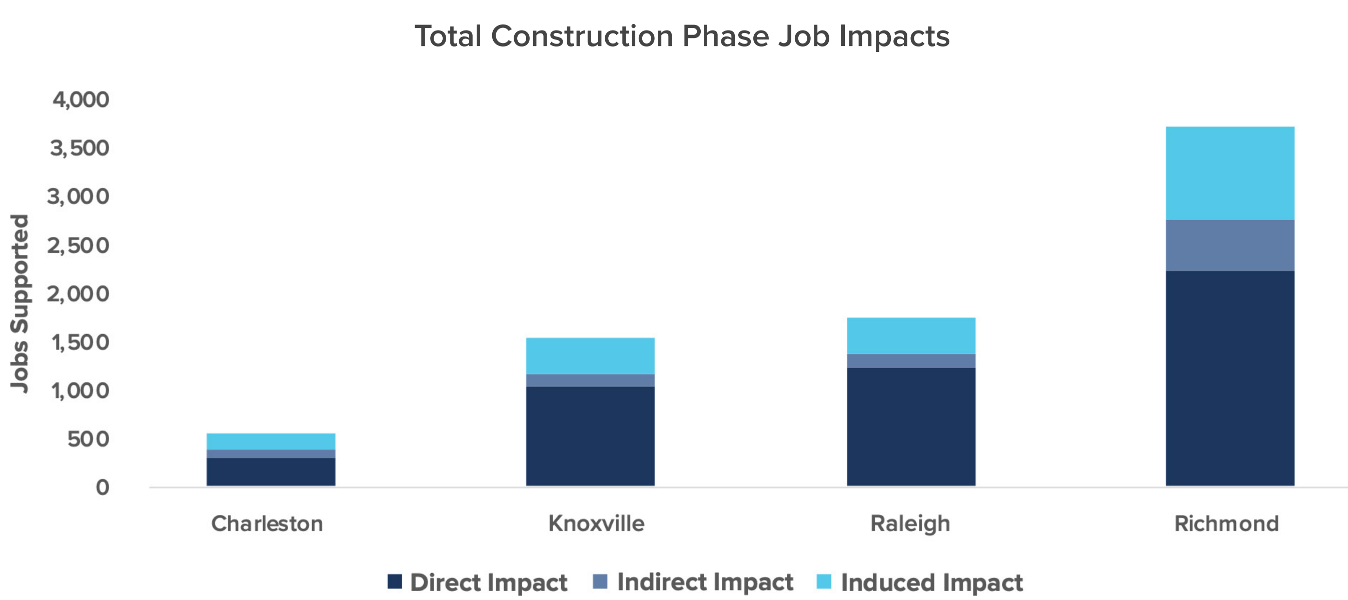
FTI Consulting, a global business consulting leader, assessed the fiscal impacts of nine Capital Square multifamily development projects built in opportunity zones designated by state governors following the Tax Cuts and Jobs Act of 2017.

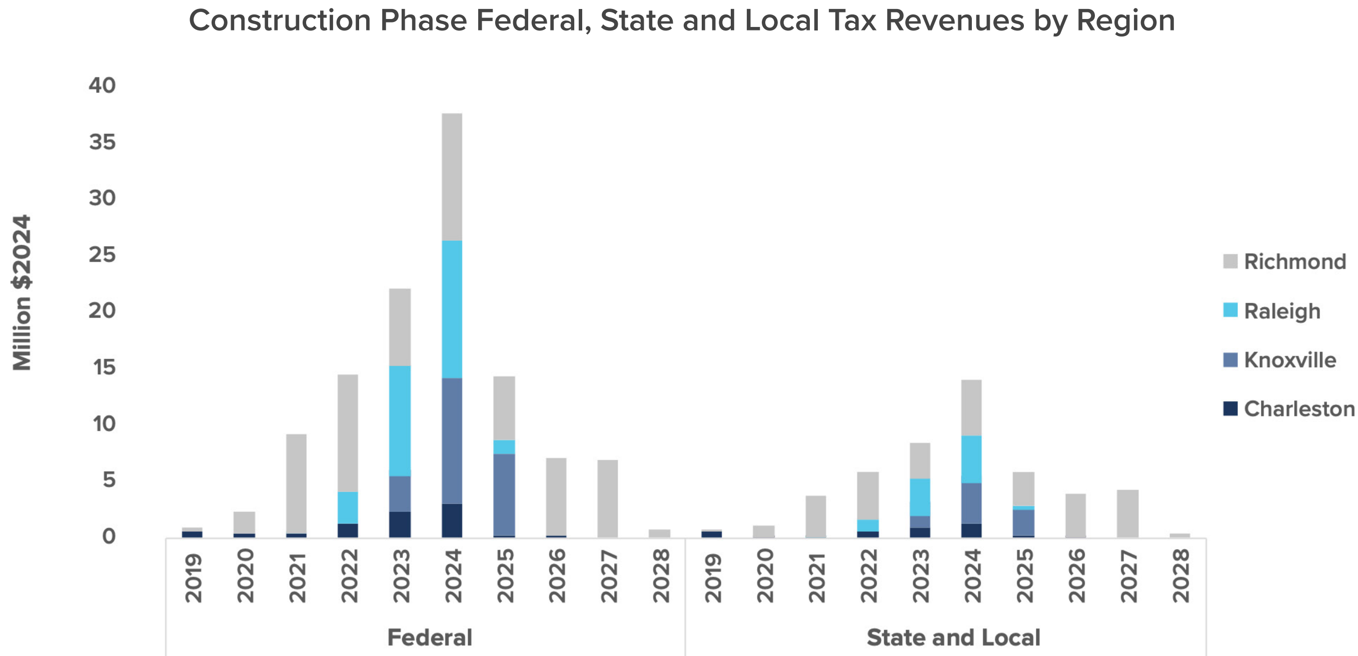
The analysis summarized the potential economic benefits resulting from the construction and operational phases of the projects, with projected results including:

- 2,010 jobs supported annually during the construction phases of the projects
- $197 million in GDP annually during the construction phases of the projects
- $41 million in total tax revenues annually during the construction phases of the projects
- 345 jobs projected to be supported annually from ongoing operations
- $81 million in GDP projected annually from ongoing operations
- $17 million in total tax revenues projected annually from ongoing operations

Is the opportunity zone legislation working? **The data proves a resounding YES.**

Source: "The Total Economic Impact of Capital Square's Opportunity Zone Developments," Capital Square and FTI Consulting, February 2025.





Furthermore:

- OZs across the nation have delivered a significant housing boost: An increase of 313,000 new residential addresses in designated communities from Q3 2019 to Q3 2024 can be attributed to opportunity zone incentives.
- OZs have created cost efficiencies: The subsidy cost for new housing directly attributable to OZs was a fraction of traditional housing programs' costs.

Source: Benjamin Glasner, Adam Ozimek, and John Lettieri, "The Impact of Opportunity Zones on Housing Supply," Economic Innovation Group, March 11, 2025.

Why Invest in OZs Now?

TAX ADVANTAGES THAT GROW WITH TIME

Qualified opportunity zone fund (QOF) investments can provide tax deferral and the potential for permanent elimination of capital gains taxes if held for at least 10 years.

A GATEWAY TO REAL ESTATE INVESTMENT

Capital gains from the sale of any type of appreciated asset can be reinvested in a QOF to achieve tax deferral and exclusion of capital gains taxes. This includes sales from stocks, bonds, mutual funds, real estate, businesses, art, cryptocurrency and more.

AN ANSWER TO THE HOUSING CRISIS

Multifamily rental demand is skyrocketing across the United States, and opportunity zones are answering that demand. Moreover, amid the creation of new housing, not a single resident has been displaced by Capital Square's OZ development work.

DEMAND FOR QOFs REMAINS HIGH

Don't wait on Congress to determine the future of OZs. The program has proven its success. Qualified opportunity zone funds experienced a robust start to 2025, and the momentum is in investors' favor.

Source: Jason Watkins, "Novogradac-Tracked QOFs Report Additional $810 Million in Equity During First Quarter of 2025," Novogradac, April 28, 2025.

“Fascinating new economic research shows Opportunity Zones have created far more housing than previously known (313,000 units) and at far cheaper subsidy cost than most people realize ($26k/unit) – making OZs perhaps the most efficient, effective housing supply creation program in existence.”

- Jay Parsons, Real Estate Economist

Source: “Jay Parsons: OZ overview and effectiveness,” Zerosixthree.com, March 14, 2025.

What’s Next for Opportunity Zones?

While the original Act is set to expire in 2026, legislation has been introduced to not only extend but also to expand the demonstrated effects of the Tax Cuts and Jobs Act.

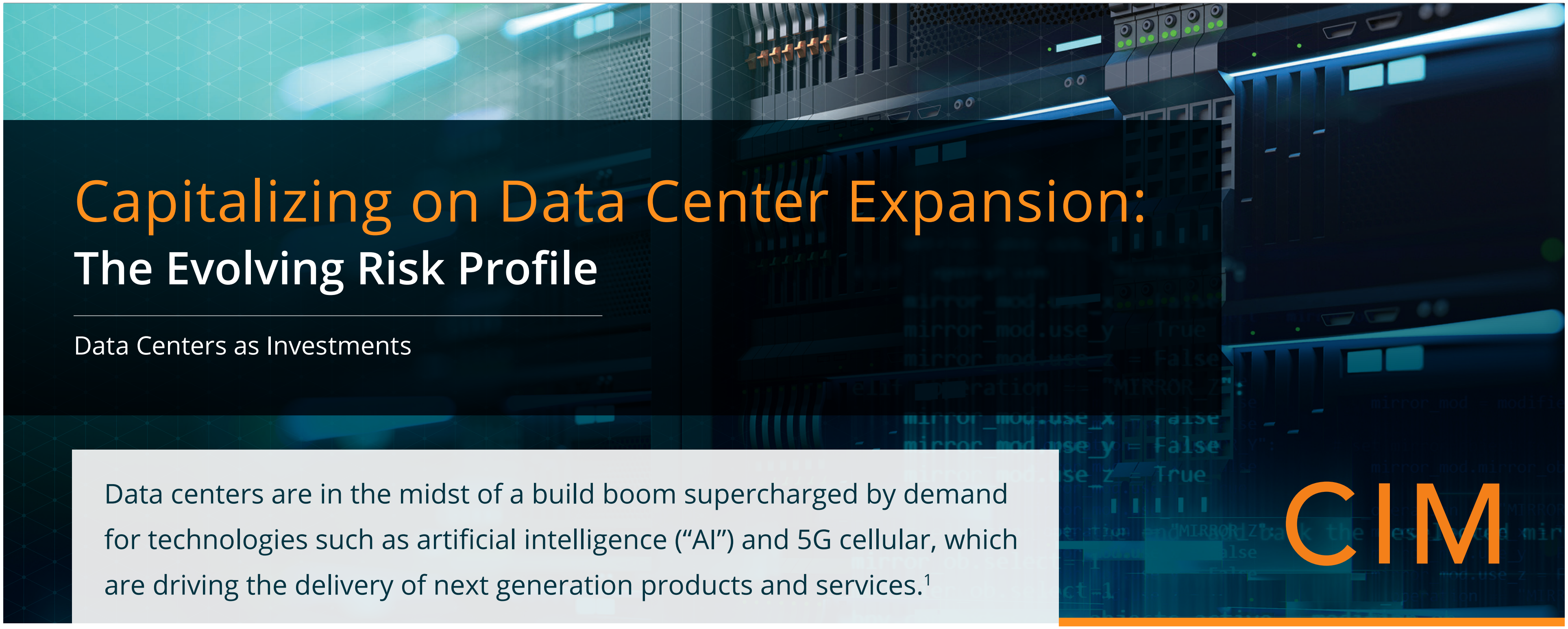
Members of the Capital Square team have been active voices in industry groups and government conversations, sharing the successes of our opportunity zone program as well as recommendations for further empowering the legislation.

Contact the Capital Square team to hear the latest on these efforts and more about how qualified opportunity zone funds can deliver tax-advantaged results.

ABOUT CAPITAL SQUARE

Capital Square is one of the nation’s leading sponsors of tax-advantaged real estate investments and an active developer and manager of multifamily communities. The firm’s real estate investment offerings include Delaware statutory trusts (DSTs), qualified opportunity zone funds, development funds and a real estate investment trust (REIT). Capital Square sponsors turn-key real estate investment offerings with low investment minimums to provide investors access to larger and higher quality real estate than they would be able to acquire on their own. Learn more at CapitalSq.com.

CIM



Capitalizing on Data Center Expansion:
The Evolving Risk Profile

Data Centers as Investments

CIM

Data centers are in the midst of a build boom supercharged by demand for technologies such as artificial intelligence (“AI”) and 5G cellular, which are driving the delivery of next generation products and services.[1]

AI services are being layered on top of the already robust need for cloud-based servers that provide critical infrastructure for global connectivity, processing, and storage.

Corporate and private investors are increasingly capitalizing on this demand by investing in data centers. In 2024, total mergers and acquisitions for data centers hit a record $57 billion.[2]

Despite increasing investment in data centers in recent years, this asset class continues to offer robust investable opportunities.

CIM has high conviction in data centers and believes we are in the early stages of a data center market expansion. AI is expected to boost global GDP by 7% (or almost $7 trillion) and lift labor productivity growth by 1.5% over a 10-year period.[3,4]

$57 billion

Invested in data center mergers and acquisitions in 2024[2]

While the projected growth in data centers represents an impressive opportunity, these assets require significant capital and specialized expertise. In addition, categorizing data centers as an infrastructure or real estate investment has become increasingly complex, as these properties have unique characteristics related to land, power and leasing. Data centers may exhibit characteristics of both asset classes, attracting the attention of traditional infrastructure and real estate investors and resulting in significant capital deployment from both groups.

This paper discusses the drivers of risk return in data center investments and how data center projects evolve from speculative development projects to established income producing properties.

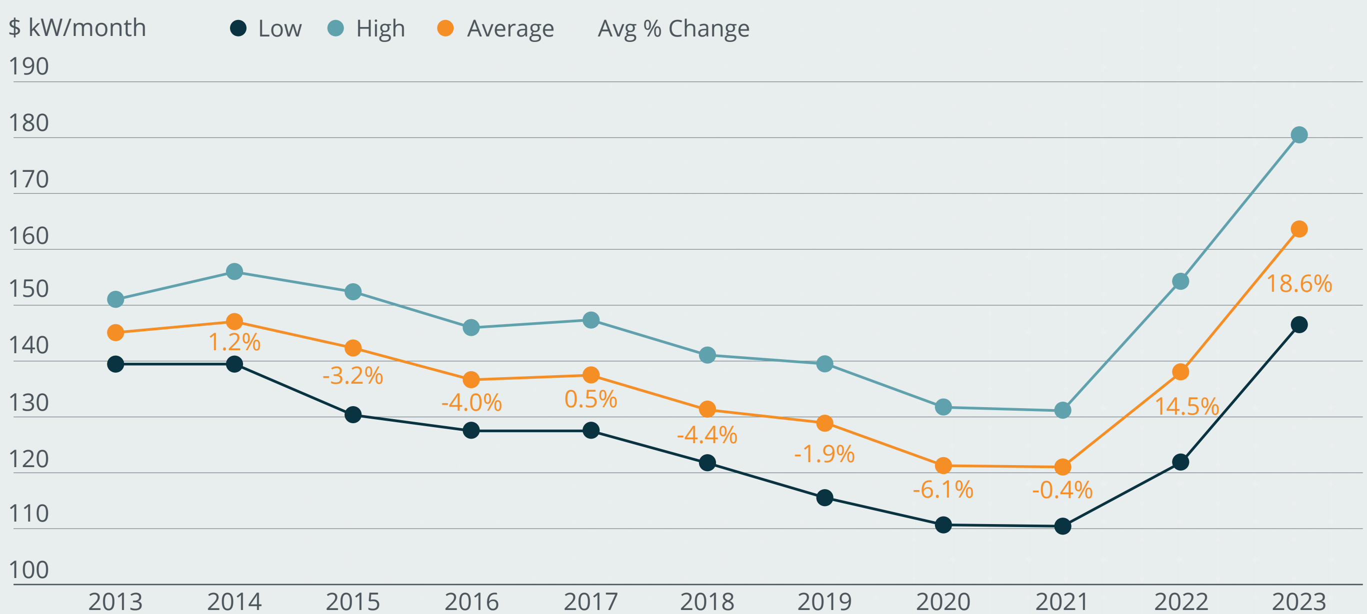
U.S. Landscape

Data center capacity in primary markets in the U.S. expanded 26% in 2023 to 5,174.1 megawatts (MW), with record levels of capacity under construction.[5] Notably, data centers accounted for half of the most valuable U.S. projects in commercial construction (ranked by construction costs) in 2023.[6]

Despite rapid construction growth, the supply of data centers remains insufficient, contributing to a near record low vacancy rate of 3.7% in primary U.S. markets.[7]

Limited supply and robust demand have resulted in a sharp increase in rental rates over the last few years (see chart below). We expect this to persist, driven by power constraints and incremental demand from AI above the market's prior expectations, which were driven mostly by the need for cloud services.

Average Asking Rental Rate with Y-o-Y % Change for Primary Markets



Limited supply and robust demand have resulted in a sharp increase in rental rates over the last few years

Source: CBRE Research, CBRE Data Center Solutions, H2 2023.

Evolving Risk Profiles, Return Potential

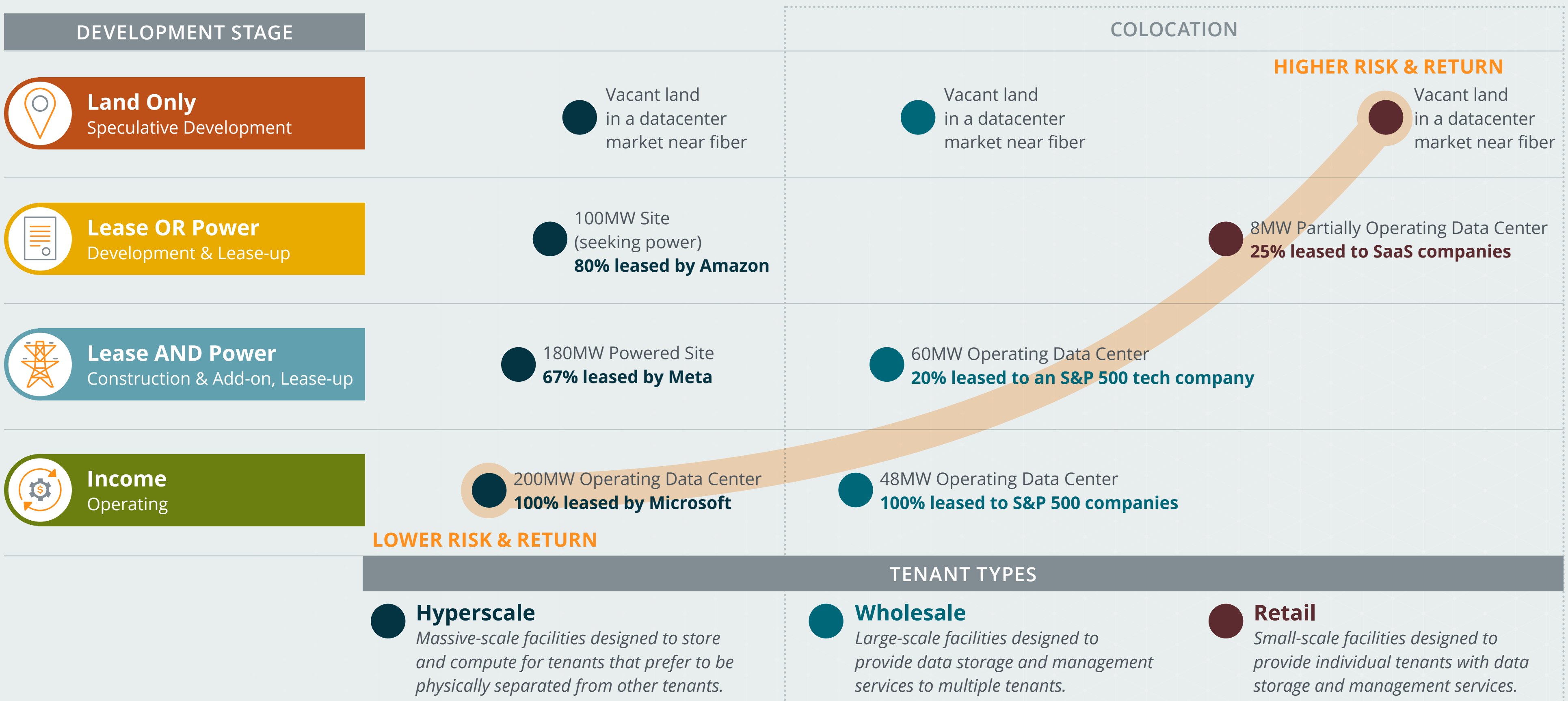
While data centers share some risk profile characteristics with other commercial real estate properties, they are differentiated by their high consumption of power and the varied needs of their potential tenants.

The graphic below and following discussion provide a framework for understanding the risk-return drivers of data centers. The axes of the figure illustrate two key principles of data centers: (a) their risk profile evolves as they are constructed, leased and power is secured, and (b) the risk profile varies by tenant type.

Investing in the early development of data centers may offer investors upside potential as the project moves from vacant land to an operating and income producing facility. However, it can also introduce greater risks and challenges, particularly in areas such as construction, power procurement and leasing.

Once leases and power are secured, development risk is largely curtailed, but construction risk and supply chain risk for resources such as power equipment may still be at play. Finally, once a project is built and leased and power is secured, the risk-return profile shifts from an emphasis on capital appreciation to income.

Data Center Market Landscape (Hypothetical Development Stage & Tenant Type)[1]



1) Based on CIM's experiences and observations.

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

Land

As with other real estate assets, data center development begins with acquiring land. However, the priorities for data center development sites are somewhat unique due to a high priority for access to fiber optic networks and existing power (or the ability to produce power on-site via cogeneration). Naturally the risk is highest at the land acquisition stage, as tenants and power needs typically aren't yet secured.

Data center developers initially concentrated in certain primary markets to provide digital services as quickly as possible to densely populated areas, as well as have access to sufficient power, digital connection, and water (for cooling computer chips). These markets include Northern Virginia, Dallas, Chicago, Phoenix, and Northern California. While developers continue to focus on these markets, they also have expanded to markets with less expensive land and less dense populations to provide services for which greater latency is acceptable, such as training an artificial intelligence model. Data center development is manifesting in more than 20 metro areas nationwide. [8]

Power

Securing reliable power has risen as the primary constraint in data center development, contributing to the limited available supply and low vacancy rate of data centers in the U.S. In particular, data centers running AI models need substantial power to do so. For example, a ChatGPT query needs nearly 10 times as much electricity to process as a Google search on average.[9]

Global electricity demand is expected to rise 3.4% annually through 2026, up from 2.2% in 2023, driven by data center expansion, economic growth, and the ongoing electrification of homes and vehicles.[10]

Meanwhile, the power grids in the U.S. and other advanced economies are decades old and not built for projected energy needs.[11] With high energy demand and a constrained electricity grid, developers may gain an advantage through strong partnerships with local utilities and getting into their project queues early to help ensure a consistent long-term source of power. Developers may also consider supplying some of their own power, such as via solar panels, battery storage, and natural gas turbines.

> **"Hyperscalers, which include some of the most credit worthy, well-known digital companies, are considered the least risky tenants."**

Lease

The risk of owning a data center decreases as a tenant leases capacity. Due to high demand for digital services, it's currently easier to find tenants than to secure power. However, tenants must have a high degree of confidence in the data center operator, as digital downtime can be extremely costly.

With AI added to the mix of cloud computing and storage, a variety of tenant types have evolved and emerged in the data center space, and this can alter the risk profile of a data center, along with its stage of development.

Hyperscalers, which include only a handful of the largest and most well-known digital companies, are considered the least risky tenants. Hyperscalers act as cloud service providers, managing the digital services of data centers and providing significant computing and storage capacity to others. They command the lowest lease rates among data center tenants, due to both the scale of the capacity they lease and their credit worthiness.

Wholesale tenants tend to be large companies with compute-and-storage-intensive business needs whose average credit risk and scale command mid-range rents. While on the far end of the risk spectrum are data centers with a retail focus, leasing space to several small and less creditworthy tenants, which pay the highest rents.

Conclusion

The rapidly growing popularity of generative AI, coupled with the already popular use of cloud computing, is supercharging demand for data centers.

With such strong tailwinds, CIM has high conviction in data centers as investment opportunities over the long-term and believes the rapid growth of data centers is creating new opportunities for private investors.

However, classifying data centers as infrastructure or real estate investments has become more complex. In CIM's view, private investors should consider the following, which may indicate where a data center investment is allocated in an overall portfolio:

- **Data centers are differentiated** from other commercial properties by their **high consumption of power** and the varied needs of their potential tenants.

- **The risk profile of a data center varies by tenant type,** including whether the property consists of a lease to a single hyperscaler or involves the colocation of multiple smaller tenants.

- **The risk profile also varies as data centers achieve specific milestones:** land acquisition, acquiring power, and leasing to a tenant or tenants.

The future is digital, and there is a strong argument for investment portfolios across both infrastructure and real estate to anticipate that future.

Learn more about CIM's infrastructure platform at www.cimgroup.com/infra

Footnotes

1. Forbes, “Five Trends Driving The Booming Data Center Economy In 2024 (And Why Investors Are Taking Notice),” January 22, 2024.
2. FutureCIO, “Data centre M&A surges to record $57 billion in 2024, driven by private equity,” January 15, 2025
3. Goldman Sachs, “AI is poised to drive 160% increase in data center power demand,” May 14, 2024
4. Goldman Sachs, “Generative AI could raise global GDP by 7%,” April 2023
5. CBRE, “North America Data Center Trends H2 2023,” March 6, 2024
6. Construction Dive, citing Dodge Construction Network, “5 biggest data centers to break ground in 2023,” December 21, 2023
7. CBRE, “North America Data Center Trends H2 2023,” March 6, 2024
8. Newmark, “2023 U.S. Data Center Market Overview & Market Clusters,” January 2024
9. Goldman Sachs, “AI is poised to drive 160% increase in data center power demand,” May 14, 2024
10. International Energy Agency, “Electricity 2024,” January 2024.
11. International Energy Agency, “Electricity Grids and Secure Energy Transitions,” October 2023.

Disclosure

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Alternatives by FRANKLIN TEMPLETON

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Clarion Partners House View

May 2025

Clarion believes it is a favorable time to invest in real estate despite elevating uncertainty

We believe a new cycle is commencing

Private real estate appears to be bottoming, and liquidity is returning to debt markets. Real estate pricing metrics are favorable relative to other asset classes.[1]

Healthy supply/demand fundamentals

Fundamentals support NOI growth across most sectors; tariffs will elevate construction costs further slowing new supply.[2]

U.S. economy has remained resilient

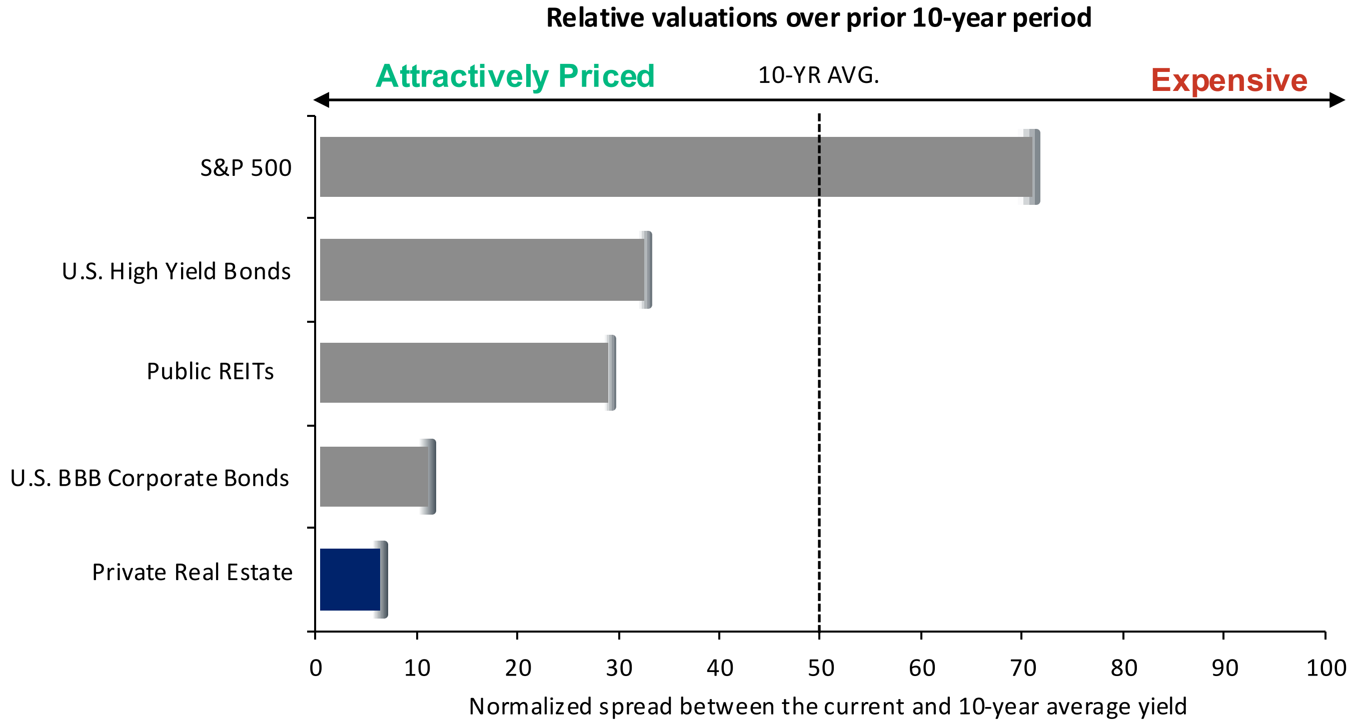
The U.S. economy remains reasonably well positioned though risks are increasing. Growing uncertainty around trade and tariff policies, slowing U.S. growth and declining 10-year yields are cautionary markers.[3]

1. .Please refer to page 3 and 4 of this presentation for further details.
2. Please refer to page 8 of this presentation for further details.
3. Moody's Analytics, BLS, BEA, FRED, Clarion Partners Global Research, Q1 2025

Past performance is not indicative of future results. Please see the important information at the end of this presentation.

Private real estate appears attractive relative to other asset classes

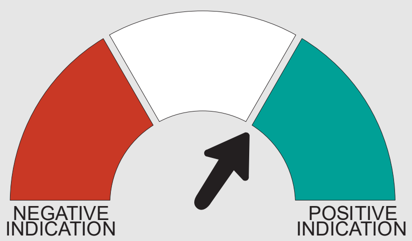
At current values as of 1Q25, private real estate has only been more attractively priced 7% of the time versus the stock market which has been more attractively priced 71% of the time over the past decade.



Source: St. Louis Fed, Moody's Analytics, GSA, NAREIT, Clarion Partners Global Research, as of Q1 2025
Private Real Estate = GreenStreet Nominal cap rate, U.S. BBB Corporate Bonds = ICE BofA BBB US Corporate Index Semi Annual Yield to Worst, Percent, Quarterly, Not Seasonally Adjusted, U.S. High Yield Bonds = ICE BofA US High Yield Index Semi-Annual Yield to Worst, Percent, Quarterly, Not seasonally adjusted, Public REITs = NARIET All Equity REIT Cap rate
Note: Valuation metrics: Corporate and high-yield bonds: yield-to-worst, direct CRE: cap rates, REITs: implied cap rate, S&P500: P/E Ratio. The asset classes are associated with different levels of volatility, liquidity and other risks. The 25Q1 estimate for the REIT implied cap rate was calculated using the quarterly change in the Green Street market wtd. implied cap rate. **Past performance is not indicative of future results**. Please see the important disclosures at the end of this presentation.

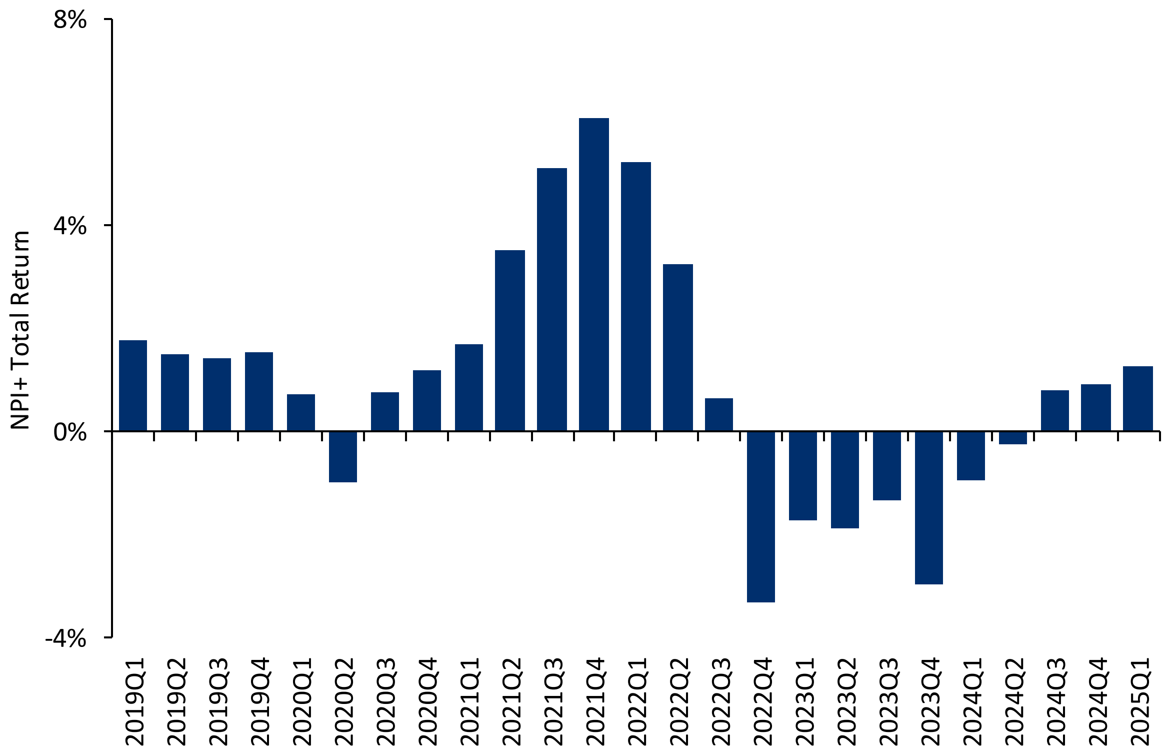
Private real estate returns appear to have stabilized

Indicator



Historically, values have rebounded in locations and property types for which demand is strong and new supply is constrained.

Private Real Estate Quarterly Total Returns



Sources: NCREIF, Clarion Partners Global research as of May 2025. Data above reflect total returns for NPI+ unlevered. Expanded NPI (NPI+) includes all NPI properties and all qualified alternative assets. Alternative assets include storage, senior housing, data centers, parking and others.
Notes: The information contained above represent the views and opinions of Clarion Partners and are based upon the knowledge and experience of the Clarion Partners Global Research team.
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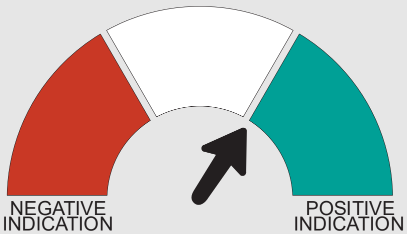
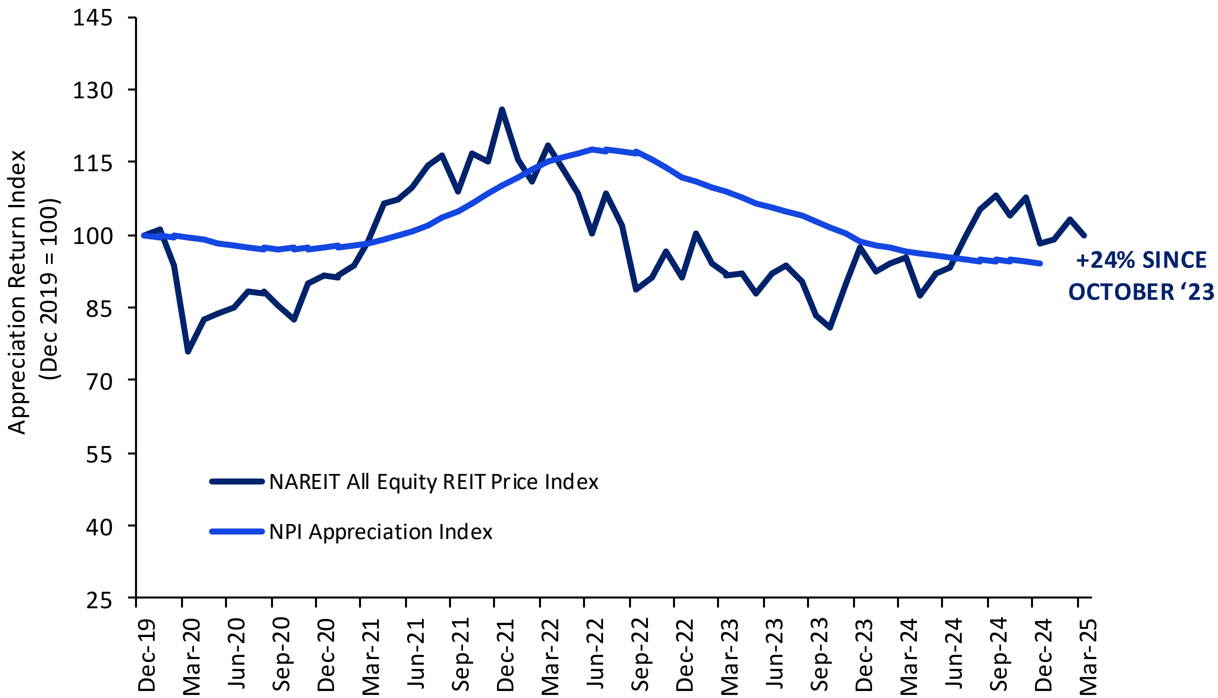
Public real estate markets can be a leading indicator of values

Indicator



Public market valuations have been increasing, potentially providing insight into future private market valuations

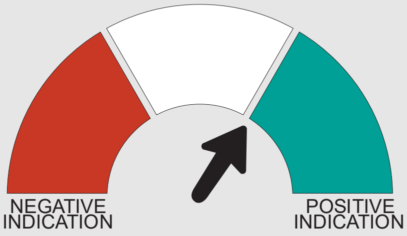
Public REIT vs. Private Market Pricing



Sources: NAREIT (as of March 2025), NCREIF (as of 4Q24), Clarion Partners Global Research.
Private real estate bears the same risks are real estate in general but additionally is suitable only for investors who can bear the risks associated with private market investments (such as private credit and private equity) with potential limited liquidity. The information contained above represent the views and opinions of Clarion Partners and are based upon the knowledge and experience of the Clarion Partners Global Research team. **Past performance is not indicative of future results.** Please see the important disclosures at the end of this presentation

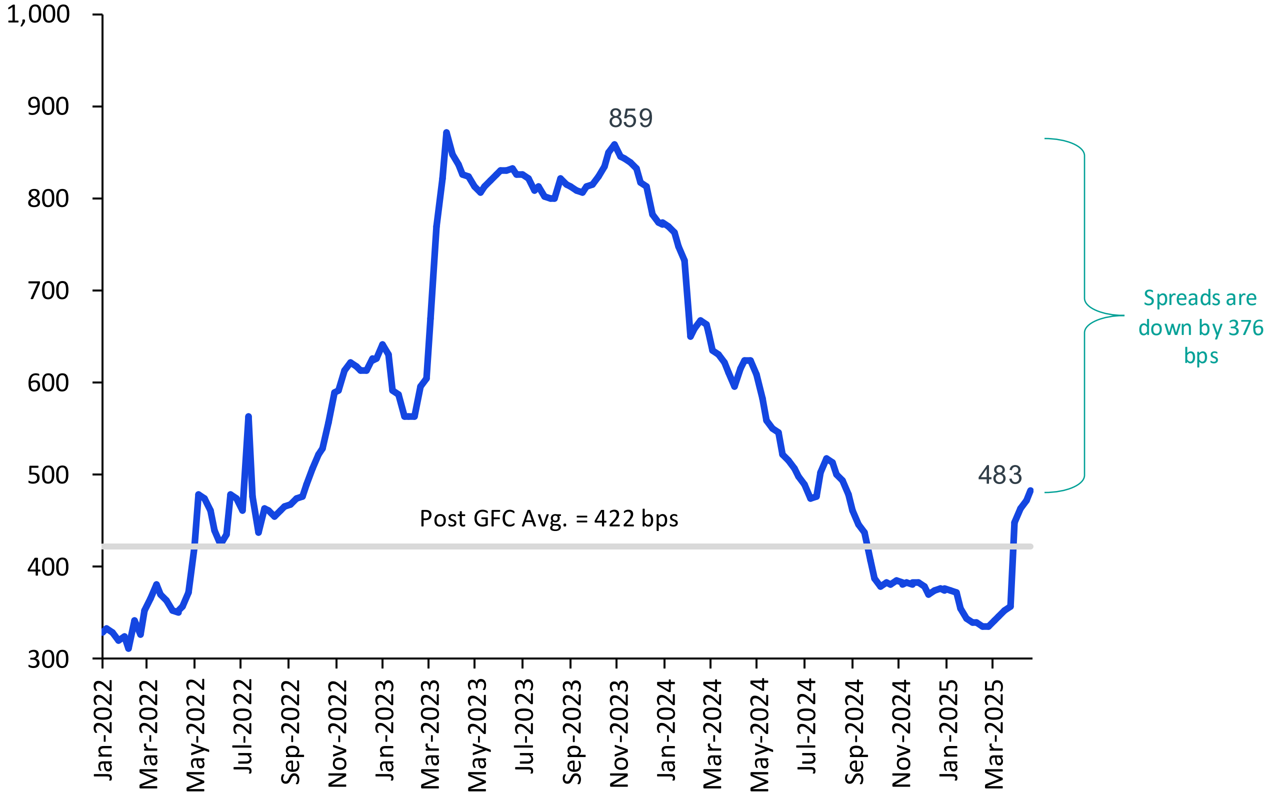
Spreads remain near the post-GFC average but have trended upward in recent periods

Indicator



After falling below its post-GFC average through the latter part of 2024, spreads have widened in recent weeks, as lenders tightened credit standards in response to heightened, tariff-driven uncertainty.

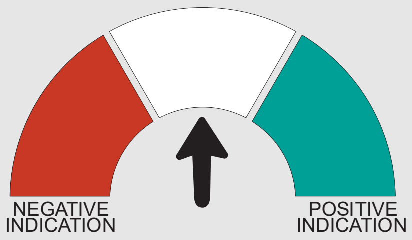
BBB Conduit CMBS Spreads over Treasuries (BPS)



Sources: St. Louis Fed, Trepp, GSA, Clarion Partners Global Research, May 2025. Notes: Conduit CMBS BBB Spreads are over interpolated Treasuries (J+) after 2022 and spreads over Libor-based swaps (N+) prior to 2022; Post GFC Avg. = Starting in Jan 2012; last observation 4/25/2025. The information contained above represent the views and opinions of Clarion Partners and are based upon the knowledge and experience of the Clarion Partners Global Research team. **Past performance is not indicative of future results**. Please see the important disclosures at the end of this presentation

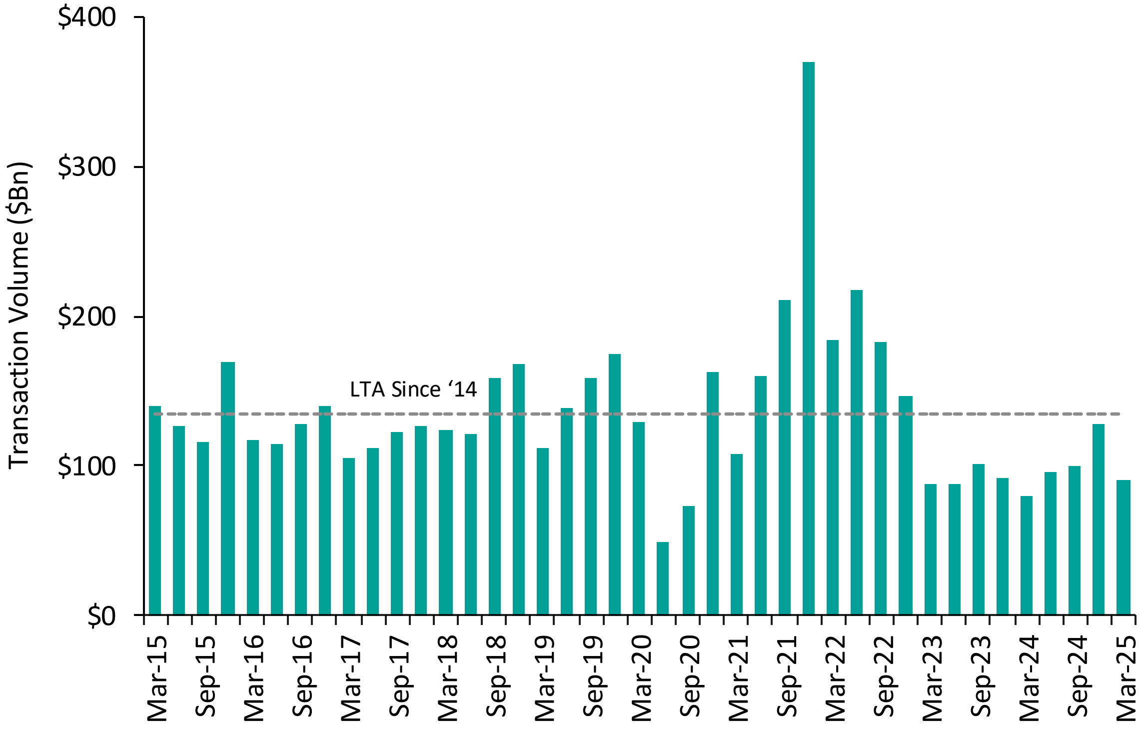
Transaction volumes appear to be stabilizing

Indicator



Over the past decade, quarterly U.S. real estate transaction volumes ranged between $100B - $200B, outside of a post-COVID spike when real estate fundamentals were strong, and interest rates were historically low.

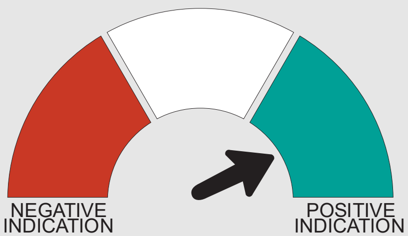
U.S. Total Commercial Real Estate Transaction Volume ($Bn)



Sources: Real Capital Analytics, Clarion Partners Global Research, May 2025.
Note: Transaction volume inclusive of transactions greater than $2.5 million. Land transactions are not included. The information contained above represent the views and opinions of Clarion Partners and are based upon the knowledge and experience of the Clarion Partners Global Research team. **Past performance is not indicative of future results.** Please see the important disclosures at the end of this presentation

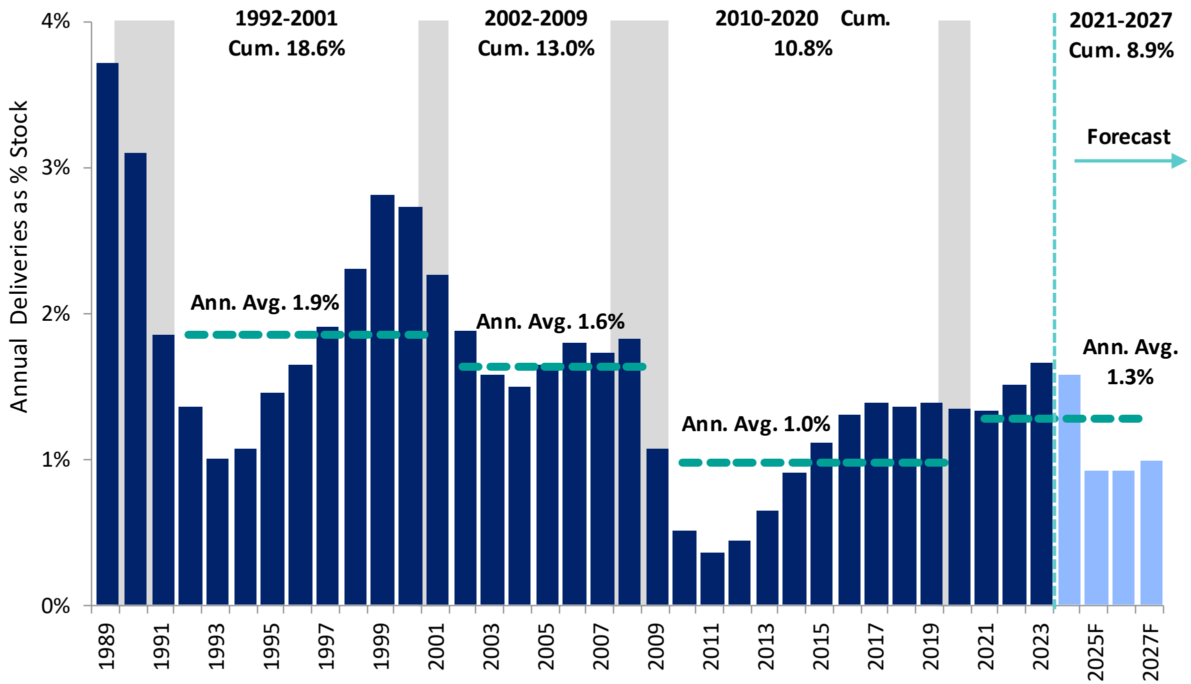
New supply projected to decline in coming years

Indicator



Higher construction and financing costs combined with slower rent growth, higher required yields and less investment capital has resulted in an estimated 40% - 50% decline in new construction starts for residential and industrial properties.

Cumulative & Average New Supply (% of stock)



AVERAGE OF APARTMENT, INDUSTRIAL, OFFICE AND RETAIL; GREY BARS = RECESSIONS; DOTTED LINE = ANNUAL AVERAGE

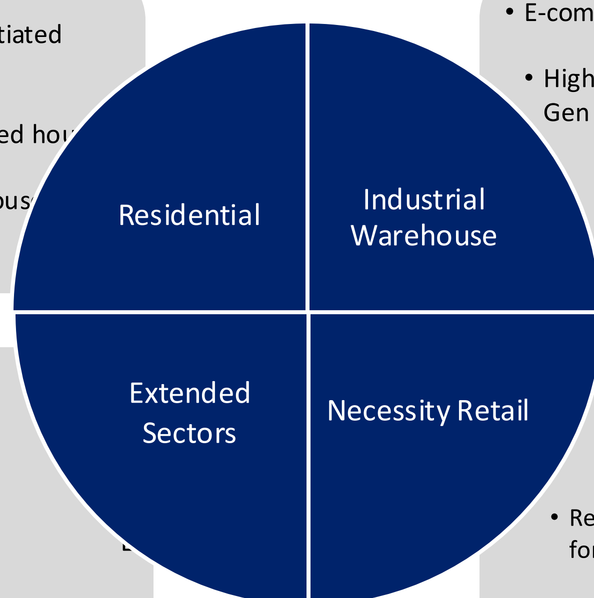
Source: CBRE-EA, Clarion Partners Global Research, March 2025.
Note: Forecasts were provided by Clarion Partners Investment Research from March 2025. Cumulative new supply was calculated from the beginning of the cycle to the end of recession. Forecasts have certain inherent limitations and are based on complex calculations and formulas that contain substantial subjectivity and should not be relied upon as being indicative of future performance. The information contained above represent the views and opinions of Clarion Partners and are based upon the knowledge and experience of the Clarion Partners Global Research team. **Past performance is not indicative of future results.** Please see the important disclosures at the end of this presentation

Macro themes driving real estate sector performance

Demographics | Innovation | Shifting Globalization | Housing | Resiliency

- Millennials & Gen Z driving differentiated housing demand / next gen cities
- Retiring boomers driving age targeted hou
- Historic low affordability pushing hous to renting

- E-commerce growth → warehouse demand
- Higher earning wave of Millennials / Gen Z are driving consumption
- Shifting trade patterns leading to nearshoring and onshoring of manufacturing



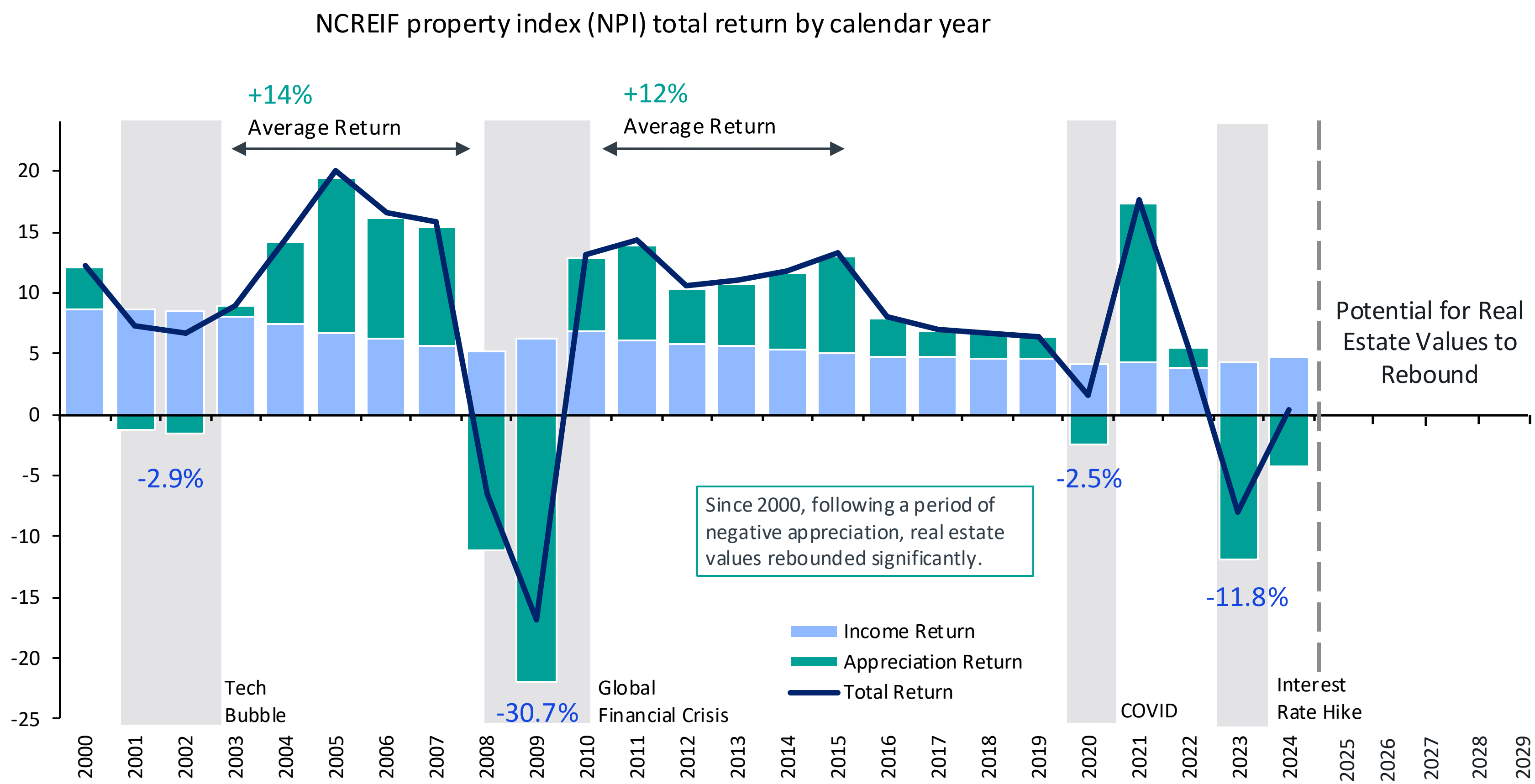
- Housing: Build-to-Rent (BTR) and Student Housing
- Healthcare: Senior Housing and Science
- Distribution: Industrial Outdoor Storage (IOS)

- Millennials / Gen Z entering prime earning and spending years
- Resiliency of grocery & necessity formats
- Technological advancements in omnichannel retail driving demand near consumers

Source: RealPage, CBRE-EA, Clarion Partners Global Research, Q1 2025. **Past performance is not indicative of future results**. Please see the important disclosures at the end of this presentation.

Clarion believes a new positive cycle has begun

Private real estate returns historically attractive after periods of re-pricing



Source: NCREIF, Clarion Partners Global Research, Q4 2024. **Past Performance is not indicative of future results.** Please see the important disclosures at the end of this presentation.

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Risks related to real estate investing include, but are not limited to, illiquidity; competition for tenants; failure to succeed in new markets; inability to pass through increases in operating expenses and other real estate costs; inability to complete development and renovation on advantageous terms; inability to lease vacant space, difficulties in renewing leases or re-letting space as leases expire; changes in tax or other laws and regulations support for multifamily housing; environmental matters; possible inability to sell properties; insurance coverage; financial condition of tenants; and uninsured losses from seismic activity.

LEED Certifications: LEED certifications are a green building rating program developed by the U.S. Green Building Council ("USGBC"). Certifications achieved during the design and construction of a building do not expire. Certifications achieved based on the operation expire after three years and must be renewed. Fees are paid to the USGBC to receive building-level certifications.

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Index Definitions

NCREIF Property Index ("NPI"). The NPI is a primary benchmark for the commercial real estate industry calculated and maintained by the National Council of Real Estate Investment Fiduciaries (NCREIF). The NPI is a total rate of return measure of the investment performance of a large pool of individual commercial properties that have been acquired in the private market for investment purposes. The NPI includes only U.S. office, industrial, retail, residential and hospitality operating properties owned in whole or in part by non-taxable institutional investors and accounted for at market value. Unless otherwise disclosed, the NPI is presented gross of investment management fees and is unleveraged. Information regarding NPI's methodology is available at http://www.reportingstandards.info/. Substantial differences exist between the methodology for calculating the NPI and the Firm's performance data. Performance was achieved under certain economic conditions that may not be repeated. The NCREIF Total Return Property Index (NPI). The NPI quarterly, annual and annualized total returns consist of three components of return – income, capital and total. Total Return is computed by adding the Income Return and the Capital Value Return.

Bloomberg Barclays US Aggregate Bond Index. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar- denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

FTSE NAREIT All Equity REIT Index. The FTSE NAREIT All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. Equity REITs. Constituents of the Index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

S&P 500 - Standard and Poor's 500 Index. The S&P 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to capture the returns of many different sectors of the U.S. economy. The total return calculation includes the price-plus-gross cash dividend return.

Standard deviation: Standard deviation is a statistic used as a measure of the dispersion or variation in a distribution, or data set, from its mean, or average; it measures the volatility of an investment's return over a particular time period; the greater the number, the greater the volatility.

Consumer Price Index. The Consumer Price Indexes (CPI) program produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

NREI / Marcus & Millichap Investor sentiment survey. A joint industry sentiment survey run by National Real Estate Investor (NREI) and Marcus & Millichap, a firm specializing in commercial real estate investment sales, financing, research and advisory services, with offices across the United States and Canada. A quarterly report meant to gauge Commercial Real Estate investors confidence in the current US Real Estate market.

EAGLE POINT
CREDIT COMPANY

Thomas Majewski

Founder & managing partner

Eagle Point Credit Management

Tariffs, trade wars and inflationary pressures are unlikely to prevent CLOs doing well this year

No two years are the same — but 2025 is shaping up to be strong

In many ways, 2024 was a year of records. New CLO issuance volume exceeded USD 200bn and total issuance volume, including refinancings and resets, reached USD 509bn, surpassing 2021's high mark of USD 438bn. Importantly, net issuance remained balanced at USD 70bn, leaving many CLO debt buyers with less capital deployed than anticipated at the beginning of 2024.

Resets went into orbit, numbering well over 400 and accounting for more than USD 210bn of issuance. Tightening spreads and healthy investor demand drove this impressive showing, as did the emergence of a sizeable backlog of would-be transactions that had stalled in the face of 2023's market conditions.

What might lie ahead for 2025? We believe that CLO investors will have plenty of reasons to be cheerful. No two years are the same — but 2025 is shaping up to be another strong year.

Expect a slight fall in issuance

Many in the industry expect primary market CLO issuance to again reach or even exceed USD 200bn, but we anticipate volumes to fall a bit lower given that CLO equity arbitrage isn't where it was a few months ago. Certainly, without a significant influx of true new issue loans into the market and loan prices hovering around par, we are setting our net CLO issuance expectations low for 2025, at USD 50bn.

In our view, spreads are likely to tighten further, corporate default rates should remain quite low and triple C concentrations should fall. Indeed, CLO triple As could end the year somewhere between 90bps and 100bps, which would take us into territory not seen since before the pandemic.

With the saga of Serta Simmons having now dragged on for five years, the likely fate of liability management exercises (LMEs) in 2025 merits mention. The recent ruling by the US Court of Appeals for the Fifth Circuit offers an interesting legal hammer against sponsors who have been promulgating lender-on-lender violence. Though we hope to see a reduction in the aggressive activity that creates unequal outcomes, we believe it is incumbent upon all CLO security investors — both debt and equity — to push their CLO collateral managers vigilantly to combat these trends with their relationships and dollars.

There are several 'known unknowns' to consider as we enter 2025. The impact of tariffs, trade wars and inflationary pressures underline that we are living in a risk-on world where volatility is not so much possible as practically inevitable. Against this backdrop, CLO investors may wish to keep in mind two important points.

Firstly, barring a major unknown macro event, we believe that none of the above means a big default cycle is imminent. Moreover, even if there were such a turn of events, the best CLOs within their reinvestment periods should be able to outperform. Our portfolio of CLO equity typically comes out of cycles looking better than it did going in because the deeply discounted loan purchases made during a dislocation outweigh the losses from defaults.

Secondly, put simply, "the rumour is worse than the news". The reality is that inflation and interest rates have relatively minor impacts on CLO equity. Rates are worth watching, but CLO equity is ultimately a spread arbitrage product. Rather than rates, spread compression poses a bigger risk to CLO equity, but CLO equity investors can mitigate the spread reduction by driving proactive refinancing and reset activity.

As Mark Twain once said: "History doesn't repeat itself, but it often rhymes." While 2025 won't be a repeat of 2024, we see rhyming trends from 2024 playing out in 2025.

EXCHANGE RIGHT

EXCHANGE RIGHT

2025 MID-YEAR OUTLOOK: THE CURRENT NET LEASE OPPORTUNITY

In today's economic environment marked by high interest rates, increased recession risk, and lower yields from traditional stock and bond investments, investors are increasingly seeking tax-advantaged solutions that provide capital preservation, stable income, and growth potential. Simultaneously, the net lease market presents a distinct opportunity, allowing investors to acquire high-quality, recession-resilient tenanted properties at attractive valuations.

THE CURRENT NET LEASE OPPORTUNITY

The current net lease market opportunity has been shaped by the sustained higher-interest-rate environment, which has provided compelling discounts to long-term net lease valuations.

Unlike economically sensitive asset classes, long-term net-leased real estate backed by investment-grade credit in the necessity retail and healthcare industries have been historically resilient in the face of recessions and economic volatility. This presents a unique opportunity to acquire these stable assets at favorable valuations while also taking a defensive approach in the face of increasing economic headwinds. Moreover, the net lease structure helps to shield investors from rising property taxes, insurance, utilities, and maintenance costs, as most of these costs are contractually the responsibility of the Fortune 500 tenants who are net leasing the property.

REIT Sponsors who take strategic advantage of the current net lease opportunity will be able to drive additional value to their offerings by acquiring properties with longer lease terms at attractive pricing, in turn increasing their REIT's weighted average lease term ("WALT") and Net Asset Value ("NAV"). Advisors and wealth managers who understand the current market conditions and the net lease opportunity can also help their clients prepare for and navigate the challenges of the economic environment with stable returns and reduced volatility.

That said, not all net lease investments are created equal. It is critical to focus on recession-resilient industries, essential businesses, investment-grade credit tenants, high-quality assets, and properly vetted net leases that are designed to bridge economic crises and recessions with uninterrupted stability for investors. Sacrificing quality in any of these areas can create a weak link that leaves investors vulnerable to the economic volatility that retiring investors are seeking to avoid.

ASSET QUALITY

In addition to selecting the right industries, businesses, tenants, and lease structures, it is critical to select net-leased real estate in strong and growing markets and locations, with high vehicle traffic counts, solid population and job growth, strong store sales, and at or below market rents that are easier to replace down the road. Investors who focus only on tenant credit and lease terms can risk capital erosion if they do not pay equal attention to the quality of the underlying real estate. The three most important aspects of all real estate, including net-leased real estate, remain 1) location, 2) location, and 3) location.

PORTFOLIO STRUCTURE

Alongside assessing the quality of the underlying properties, financial advisors must evaluate the portfolio structure of net lease investments to ensure they align with investors' needs and goals. A clearly defined investment strategy is critical for avoiding exposure to economically sensitive asset classes at the wrong point in the market cycle, floating interest rates that can provide short-term gain but long-term pain, and highly leveraged portfolios that can lead to disaster. Seasoned investors look for portfolios that deliver multi-level diversification across geography, industries, tenants, lease terms, and debt terms, which can mitigate concentration risk and help preserve capital and income.

Investments that are structured with a range of exit options enable investors to select strategies that meet their unique financial objectives and estate planning needs. Ideal portfolio structures optimize tax-advantaged cash flow, allowing investors to benefit from depreciation and deductions that can increase their after-tax income. It is also important to understand whether there are exit options that can provide liquidity, optimize estate planning, and enable tax-advantaged exchanges such as 1031 exchanges, 721 UPREIT transactions, and cash-out financing options.

INVESTMENT PERFORMANCE

While asset selection and portfolio structure lay the groundwork, long-term performance is the ultimate measure of an investment. A vital indicator of REIT's operational health and performance is Adjusted Funds from Operations ("AFFO") coverage. A REIT that has a robust AFFO coverage, where distributions are fully covered by operational income, signifies income sustainability, and protects investors from dilution of investment value that can arise when distributions are derived from other sources.

Additionally, identifying Sponsors with a proven track record of delivering consistent performance throughout economic cycles is paramount. Investment platforms should be carefully evaluated based on their historical ability to meet or exceed income projections and capital preservation objectives.

A disciplined approach is essential in today's challenging market, where income generation, capital preservation, and risk management remain top priorities for advisors and investors alike. ExchangeRight's approach—centered on diversified, necessity-based portfolios focused on recession-resilient industries and tenants with an investor-centered structure—aims to serve as the foundation to take advantage of the net lease market opportunity and provide for investors' long-term investment needs.

By understanding the current net lease market opportunity, key characteristics of strong assets, portfolio structures, and investment performance, financial advisors can help investors build resilient, tax-efficient, income-generating portfolios that support their long-term financial goals and estate planning needs.

Fidelity®
INVESTMENTS

Finding extra yield potential in real estate mezzanine debt

Exploring the potential for attractive risk-adjusted returns in a misunderstood part of the market

August 2024

By Fung Lin and Andy Rubin

Mezzanine debt, a significant and growing segment of private credit, offers the potential for elevated yields and historically attractive risk-adjusted returns in a somewhat misunderstood part of the real estate market.

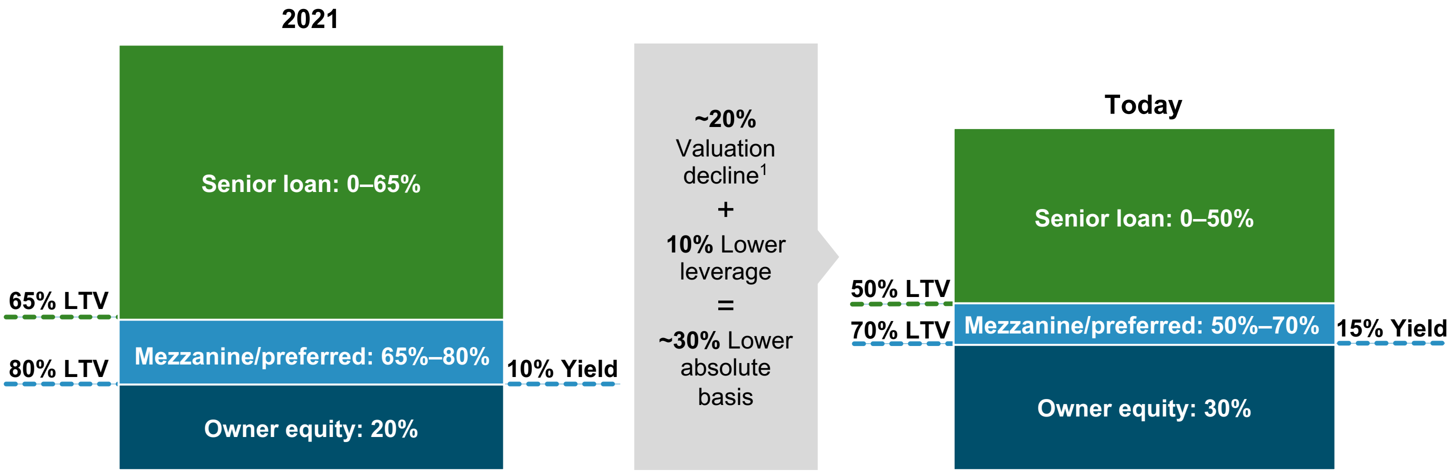
Remember these three things

- There are two main ways to approach the high yield real estate debt market: synthetic mezzanine (levered whole loan), and direct mezzanine (unlevered).
- Synthetic mezzanine structures carry margin call risk. In a Synthetic mezzanine structure, mortgage lenders manufacture high yield returns by setting up leverage facilities with banks in an arrangement called a repurchase agreement. In addition to getting paid interest, the bank also puts covenants in the repurchase agreements whereby they can issue margin calls under certain conditions. Historically, as capital markets volatility increases and economic activity slows down, there is increased risk of banks issuing margin calls which has a detrimental impact on returns for the synthetic mezzanine lenders.
- Direct mezzanine debt has a credit risk profile similar to synthetic mezzanine without the margin call risk. Direct mezzanine lenders shop the market to find the most efficient senior lender. Combining mezzanine debt with the senior loan results in a cost-effective loan for the borrower and yield on the direct mezzanine debt that is higher than the synthetic counterpart.

The short story on the opportunity in mezzanine debt

A roughly 20% decline in property values in recent years has allowed many nontraditional lenders to offer financing in the mezzanine market using less leverage and at a 30% lower absolute basis (see Exhibit 1).

Exhibit 1: A theoretical look at how a valuation decline has made mezzanine financing more attractive



The theoretical look in Exhibit 1 is for illustrative purposes only. Data is subject to change. The analysis is based on indicative pricing and the spread over Secured Overnight Financing Rate (SOFR) as of 6/30/24. Potential downside protection is no guarantee against future losses. (1) Based on Green Street CPPI as of 7/15/24.Source: Green Street CPPI, Bloomberg Finance, L.P., and Fidelity Investments, as of 6/30/24.

Commercial real estate (excluding office space) has looked healthy overall, backed by low vacancy rates, steady rents, and strong cash flows. That said, lower property values in several segments, interest-rate uncertainty, and the desire for banks to lower their leverage ratios have made many traditional lenders choosy about the loans they offer.

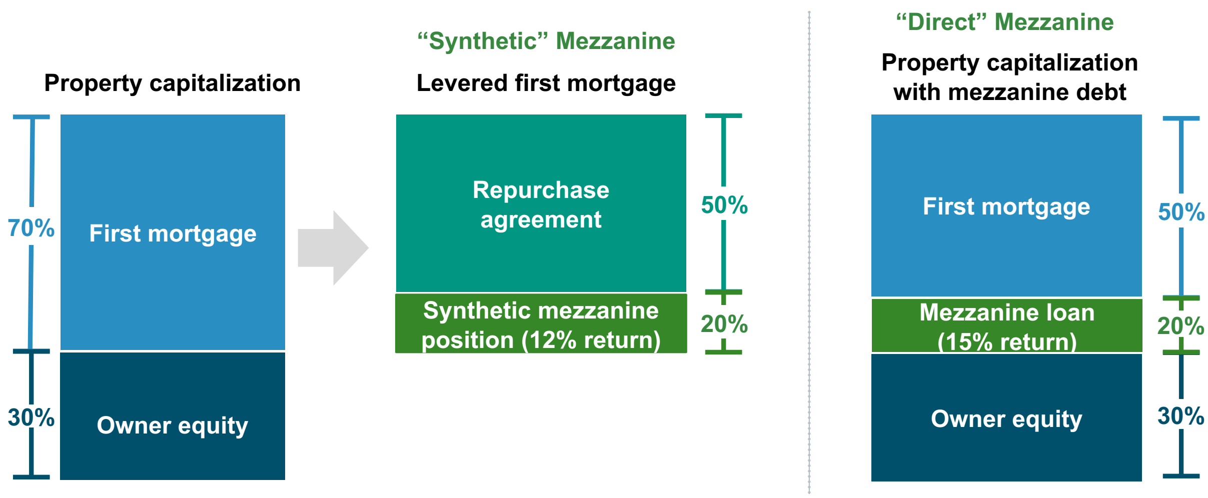
While some have exited the sector, many of the 4,000+ banks in the U.S. remain active along with insurance companies, just at lower leverage levels. This has created an expanded opportunity set for mezzanine debt providers to replace a piece of the capital structure -- and for investors to potentially generate equity-like returns at modest risk.

The two ways to invest in mezzanine loans

Direct approach: Provide an unlevered mezzanine loan in partnership with banks, insurance companies and other balance sheet lenders, who provide the first of two separate loans. With the direct approach, the mezzanine loan can be floating rate or fixed rate. This can be advantageous to lock in current high base rates.

Synthetic approach: Originate a whole loan and finance the loan with another lender, while retaining the “synthetic” mezzanine risk tranche of the loan. This is also called the Levered Whole Loan model. The loan is typically floating rate, and this model is similar to a regional bank business model, where effective management of liabilities (i.e., deposits for banks/secured line of credit for debt funds) becomes more important, especially in market downturns.

Exhibit 2: An overview of the synthetic vs. direct mezzanine structure



For illustrative purposes only. Potential downside protection is no guarantee against future losses. Source: Fidelity Investments, as of 6/30/24.

Why Fidelity has favored the unlevered mezzanine structure

Under both structures, the underlying credit risk is the same. On the risk management side, unlevered mezzanine loans mean there’s no margin call risks during times of market volatility (i.e., covid) or large secular change (i.e., office demand decline). On the return side, rather than being forced to choose among a few select lenders, we can partner with the most cost-effective among thousands of senior balance-sheet lenders in the market. The combined economics of such a partnership allows direct mezzanine lenders to keep as extra yield some of the excess economics that otherwise would go to other participants in the capital structure.

A borrower may have strong bank relationships or existing low-cost fixed rate debt in place, and we have the flexibility to be a partner in those situations, too.

Fidelity has been focused on the direct mezzanine investment model for more than 17 years, so we have a strong reputation and origination network within the market. Our ability to engage the entire senior mortgage market and have structural control of our mezzanine loan often provides the most flexible, cost-efficient option to a borrower. In today’s de-levering environment, there’s also significant opportunity to help borrowers pay down existing loans to modest levels with direct mezzanine loans.

Direct mezzanine debt in the market as of August 2024

Current real estate values are down 20%+ from recent peaks, and it's possible they could decline further. Direct mezzanine debt is positioned to take advantage of current market. This investment strategy has offered equity-like returns, while maintaining 30% equity cushion based on 2024 reset values. Our direct mezzanine structure also avoids financial leverage at a time of uncertainty.

Conclusion

- The broader real estate market de-leveraging is happening as low-rate loans mature into a higher-interest rate environment coupled with banks retrenching.
- There's over $2 trillion of real estate debt that's maturing in the next three years, providing ample opportunities to be selective as an investor.
- While it's difficult to call a bottom in real estate values, a direct mezzanine debt approach isn't reliant on property price appreciation. We believe the current market provides an attractive entry point irrespective of the go-forward trajectory of property values.
- More specifically, we believe an unlevered mezzanine debt approach can offer equity-like returns with modest credit risk.

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Andy assists portfolio managers and their Chief Investment Officers in ensuring portfolios are managed in accordance with client expectations. Also, he is a principal liaison for portfolio management to a broad range of current and prospective clients and internal partners.

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FIVE BUFFALO CAPITAL, LLC

Multi-family Real Estate in 2025

Multi-family real estate has historically been a way for investors to scale and diversify their investments. Whether in publicly traded REITS or private investments, this is has been a popular investment staple. In good times, the rent growth can be epic and in down markets values and cash flows can drop. Why should one follow multi-family real estate closely in 2025?

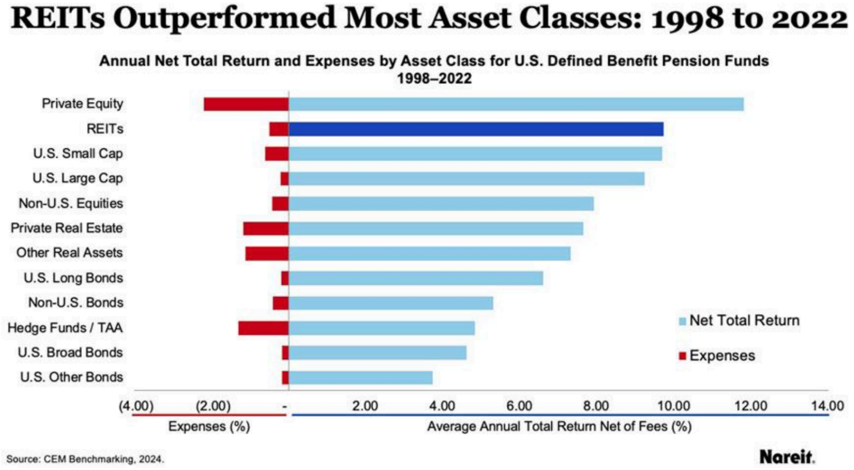
5 Reasons to Follow Multi-family Real Estate in 2025:

1 Private Equity ownership has been growing in the space.

With the demand for affordable housing increasing, multifamily apartment housing has seen an uptick in demand. According to the Private Equity Stakeholder Project report "Private Equity Multi-Family Housing Tracker" by Jordan Ash, private equity (PE) firms own about 10% of the total number of apartments in the United States.(1) Of those over 2.2 million units owned by PE firms, they have acquired 62% of that total since 2018 and 42% of that total since 2021.(2) While interest rates were low, PE firms were able to buy up portfolios at scale as well as one-off communities. The report highlights that 55% of the total units currently owned by PE are in just five states-Texas, Florida, California, Georgia and North Carolina.(3) These markets have continued to see population growth and/or housing shortages making them attractive to PE firms. Tracking the movements of PE firms in the multifamily space can give insight into where capital is flowing, where yields are compressing and how operators are underwriting deals.

2 The Real Estate Cycle vs. Market Cycle.

The real estate cycle offers low correlation to the stock market. While investors may be focused on the day-to-day swings of the stock and bond markets, real estate tends to trade with longer horizons and lags the economic cycle by 6-18 months. The prudent investor can follow local and regional markets of interest to potentially find opportunities that are contrary to a recession cycle. As the chart from Nareit shows, REIT investing has outperformed most asset classes for the period of 1998-2022 which saw a Great Recession and a global pandemic.(4)



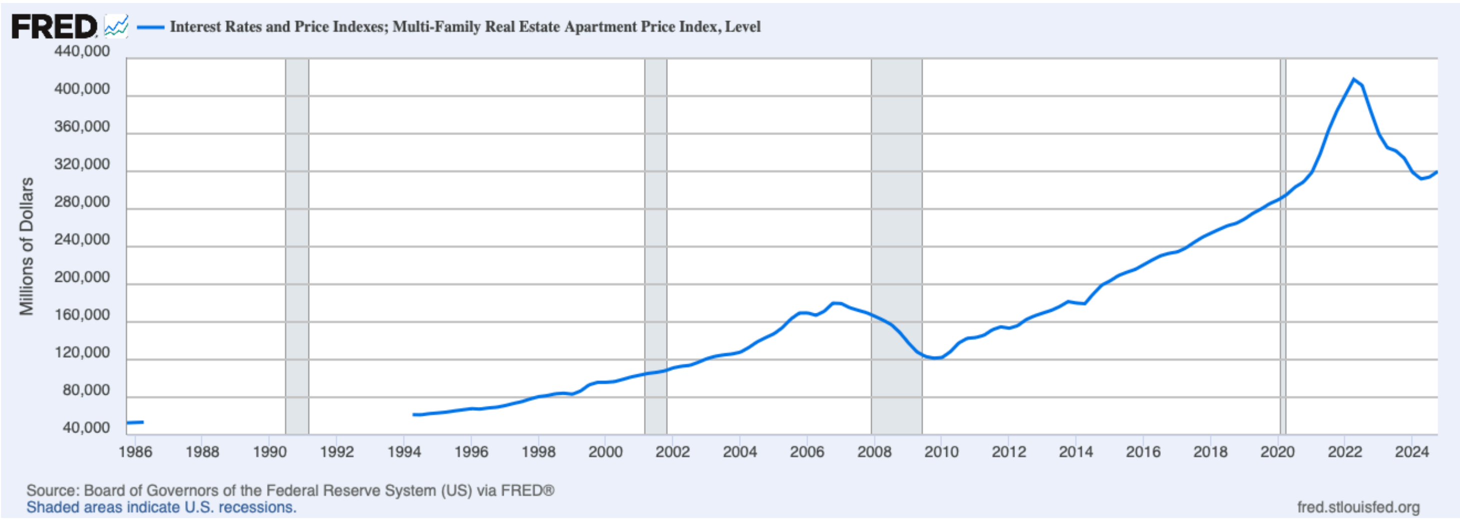
Multi-family Real Estate in 2025

3 Commercial loans are maturing at higher interest rates.

According to the Mortgage Bankers Association, the largest volume of commercial real estate loans will come due in 2025 and 2026.[5] The St. Louis Federal Reserve shows that $615.7 Billion in Commercial Real Estate Loans are secured by multifamily properties.[6] Recently, the Federal Reserve noted in their April 2025 Sr. Loan Officer Opinion Survey on Bank Lending Practices, that the percentage of domestic banks reported having tightened policies related to loan-to-value ratios and debt service coverage ratios.[7] This tightening of capital underwriting coupled with loan maturities are providing opportunities for buyers. Investors who over levered, during periods of low interest rates, are seeing the end of loan extensions and are having to consider alternative exit strategies. Some are sourcing additional equity to increase principal and negotiate mortgage terms.

4 Cap rates and values provide opportunities for buyers.

Cap rates have been fluctuating in multi-family over the past few years. In 2025, core and value add cap rates on average have slightly compressed after staying relatively flat much of 2024.[8] With higher values reflecting that investors are accepting lower returns with the expectation of future growth. Some sellers are still grappling with the prices they paid in 2021 and 2022 versus their going out rate.[9] This is providing buyers with opportunities to purchase properties at values that are more stable based on the higher interest rate environment. With higher inflation and slower rent growth due to oversupply in some markets, many properties have not increased their NOI. New owners may have the opportunity to increase rents as supply starts to decrease, and demand is strong.



Multi-family Real Estate in 2025

5 Absorption rates are increasing.

According to the National Apartment Association, Q1 2025 has continued the late 2024 trend of demand outpacing new supply.[10] With increasing absorption, high growth markets have the potential to see less concessions and the ability to increase rents. CBRE highlighted this trend toward lower vacancy rates and the ability to improve rental rates in their US Multifamily Q1 2025 update.[11] As absorption rates can be market specific, it is important to track the activity in specific submarkets as well as the national average. As the tariff environment becomes clearer in the second half of 2025, it would be reasonable to project that some developers with land or shovel ready projects, will start to move further along with projects in their pipeline.

Conclusion

With market swings, it is prudent to look at alternative investments that are not highly correlated with the market. Multi-family real estate has historically been a hedge against inflation and has allowed for diversification from the stock and bond markets. As all investments have risk, it is wise to review the five reasons multi-family real estate should be monitored as a potential alternative investment.

Resources:

1. https://pestakeholder.org/reports/private-equity-multi-family-housing-tracker/#citations
2. https://pestakeholder.org/reports/private-equity-multi-family-housing-tracker/#citations
3. https://pestakeholder.org/reports/private-equity-multi-family-housing-tracker/#citations
4. https://www.reit.com/data-research/updated-cem-benchmarking-study-highlights-reit-performance
5. https://www.mba.org/news-and-research/newsroom/blog-post/chart-of-the-week--commercial-real-estate-loan-maturity-volumes
6. Board of Governors of the Federal Reserve System (US), Real Estate Loans: Commercial Real Estate Loans: Secured by Multifamily Properties, All Commercial Banks [SMPACBW027SBOG], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SMPACBW027SBOG, June 2, 2025.
7. https://www.federalreserve.gov/data/sloos/sloos-202504.htm
8. https://www.cbre.com/insights/briefs/multifamily-buyer-and-seller-sentiment-improves-in-
9. https://www.cbre.com/insights/briefs/multifamily-buyer-and-seller-sentiment-improves-in-
10. https://naahq.org/apartment-market-pulse-spring-2025#:~:text=The%20first%20quarter%20of%202025%20sustained%20the%20momentum%20initiated%20in,to%20ramp%20up%20in%20response.
11. https://mktgdocs.cbre.com/2299/f78cf5a2-0a14-45f8-8252-9bfdff4e5c5c882820483/Q1_2025_U.S._Multifamily_Figur.pdf

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Five Themes for 2025

HALFTIME REPORT

As we entered 2025, we shared five themes impacting the multifamily sector. As we approach the midpoint of the year, it is time to evaluate the evolution of these trends and how they are materializing.

The property depicted is a representative example of the types of multifamily development properties Griffin Capital has been involved in. **This property is owned by Griffin Capital or its affiliates.**

THEME 1

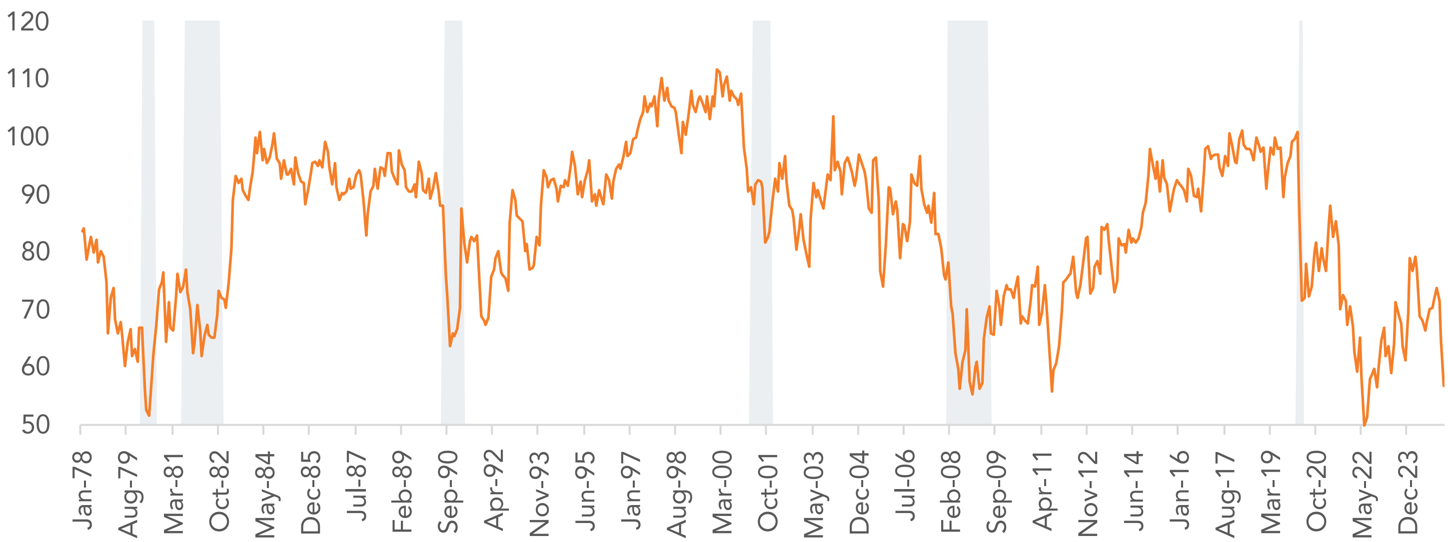
Red Sweep

The results are in. What was supposed to be a close election cycle was far from it, with Republicans prevailing in the House, Senate and White House.

While both parties talked on the campaign trail about the undersupply of housing and associated affordability issues, their stated approach to addressing these issues vastly differed. While the new government will focus first on getting nominations and appointments through the process and then shift focus to a reconciliation bill, policy discussions have already started to take shape. Depending on the extent of some of the proposed policies on immigration, trade, and tax, outcomes for the dynamics in the housing market are likely to be impacted. Policy to address housing supply is likely going to be accommodative to developers and investors, easing the red tape and regulatory burdens that have stymied housing creation. We expect an expansion of legislation like the "Investing in Opportunity Act" that spurred billions of private sector capital into Opportunity Zone Funds and see a path for further expansion of private sector incentives to develop affordable housing.

Conversely, trade policy could serve as a headwind for housing development depending on the scale and scope of tariffs and the associated cost of construction materials. The same can be said about immigration, as the construction industry relies heavily on the migrant labor pool. Higher materials and labor costs could be a counter-balance to new development but serve as a rent growth catalyst for existing supply. One of the important observations as it pertains to the incoming administration is that those who have been nominated to craft and implement housing policy have a background in the field of housing development and understand the nuanced issues that developers face and how to properly incentivize them to create the housing that Americans need.

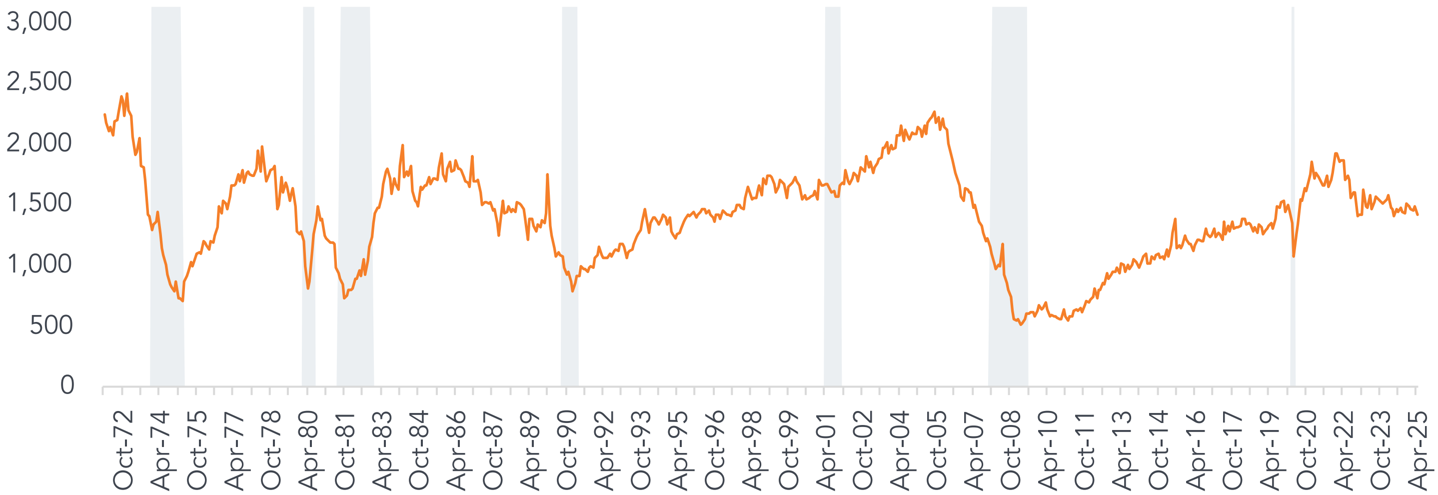
Consumer Sentiment



Source: University of Michigan: Consumer Sentiment (UMCSENT) https://fred.stlouisfed.org/series/UMCSENT

Past performance is no guarantee of future results.

Total Housing Units Authorized



Source: New Privately-Owned Housing Units Authorized in Permit-Issuing Places: All Residential Units (PERMIT5)
https://fred.stlouisfed.org/series/PERMIT5

Halftime Report

While immigration policy is clear, its impact on the labor force so far has been minimal. Builders are not reporting observable increases in labor costs, and the availability of skilled labor remains sufficient to support what is presently a muted development pipeline. Trade policy, however, presents a different dynamic, as clarity is still lacking. Impacts of this uncertainty have rippled through public equity markets, reminding investors of the benefits of portfolio diversification. The knock-on impacts of aggressive tariffs, such as a slower growth outlook and heightened probability of recession, have pushed down interest rates in some respects and increased the prospects of future rate cuts, but volatility in the bond market has created complexities for real estate investors seeking access to debt capital.

What is evident regarding trade policy thus far is that consumer sentiment has weakened, leaving business leaders somewhat confounded. This is limiting investment in the near-term at both the consumer and corporate level as indicated by an incredibly anemic start to the Spring home-buying season and M&A activity year-to-date.[1,2] Trade policy has not yet significantly impacted construction costs,[3] and in several cases, such as lumber and drywall, major construction materials have been exempted from more restrictive policies. This supports the view that the administration acknowledges that housing affordability is best addressed by reducing barriers to expanding supply. Should some of the more draconian macroeconomic outlooks materialize, we know that housing construction historically contracts during recessions, but household formation continues.

Tax Policy remains a work in progress but is gaining momentum rapidly. The House and Senate have elected to approach reconciliation through a single omnibus bill, which is the preferred approach of the Executive Branch. This legislation is likely to include extensions of key provisions from the Tax Cuts and Jobs Act (TCJA). Opportunity Zones, created as part of the TCJA and championed by influential members of Congress, are likely to be extended and potentially expanded, paving the way for additional catalysts to housing creation and expanding upon what has proven to be a very successful program.

Past performance is no guarantee of future results.

THEME 2

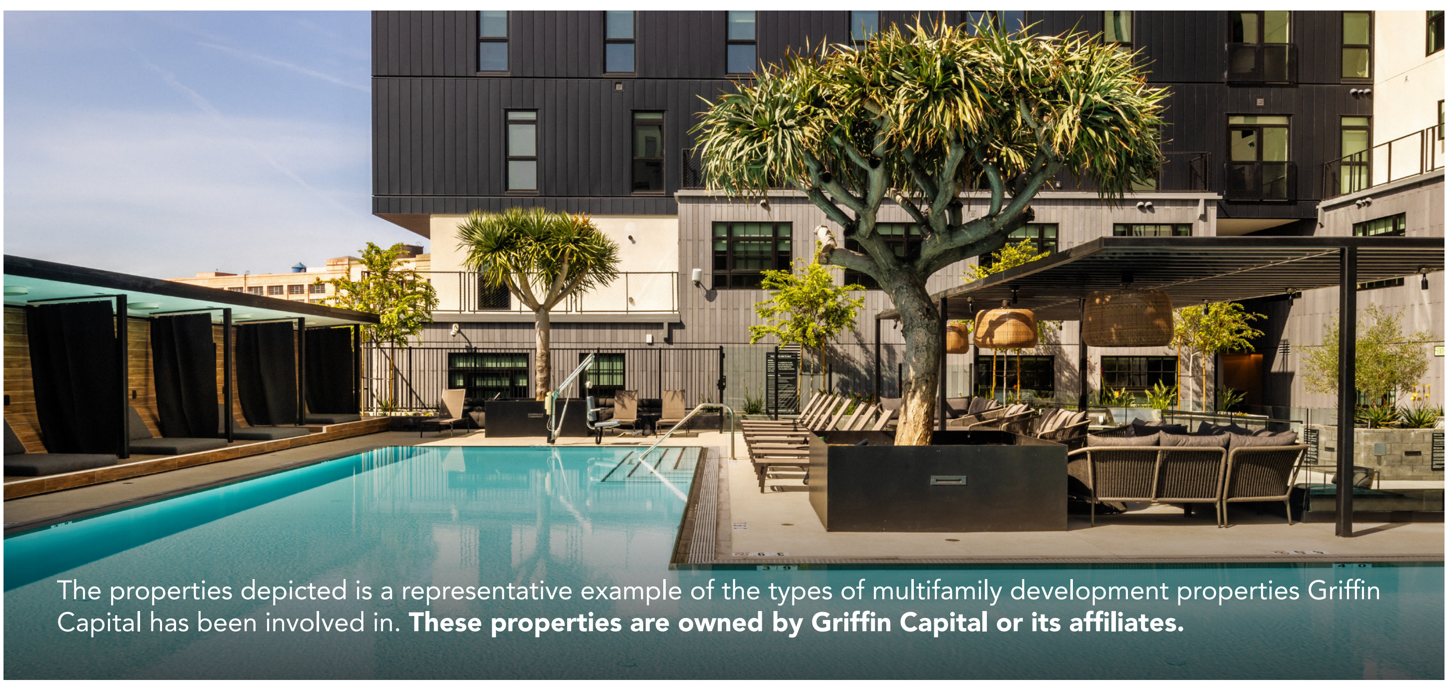
The Supply Cliff

In 2024, we had the largest spread between new apartment deliveries and new starts since 1975, a continuation of a trend from 2023.[4]

The easiest thing to predict is new apartment deliveries; one must only look at new starts and extrapolate the construction timeline to completion to understand the future of supply. New starts and future deliveries are highly correlated, and what we know for certain is that new starts have declined dramatically. In many of the high-growth markets, peak-to-trough starts are down more than 60%,[5] driven by less liquid debt markets, uncertainty around valuations as interest rates were rising, higher costs of construction and capital rotating away from real estate over the past 24 months to less interest rate sensitive sectors. As we look at the delivery pipeline, we see a dramatic fall-off starting in the second half of 2025. We expect this to lead to improved operating fundamentals for landlords, which will be realized through fewer leasing concessions and higher rental rates on renewals and new leases.

Halftime Report

The looming supply cliff is real. New starts remain muted, and the number of new deliveries will continue to decline over the next 24 months.[6] We currently find that it takes an average of 17 months to start and complete a multifamily community, a timeline that continues to extend, not including the 12 or more months required for zoning and permitting. Construction costs remain elevated, and access to debt capital for developers is only available for a select subset of market participants. However, we are already seeing operating fundamentals improving and expect this trend to continue as strong demand meets limited new supply.

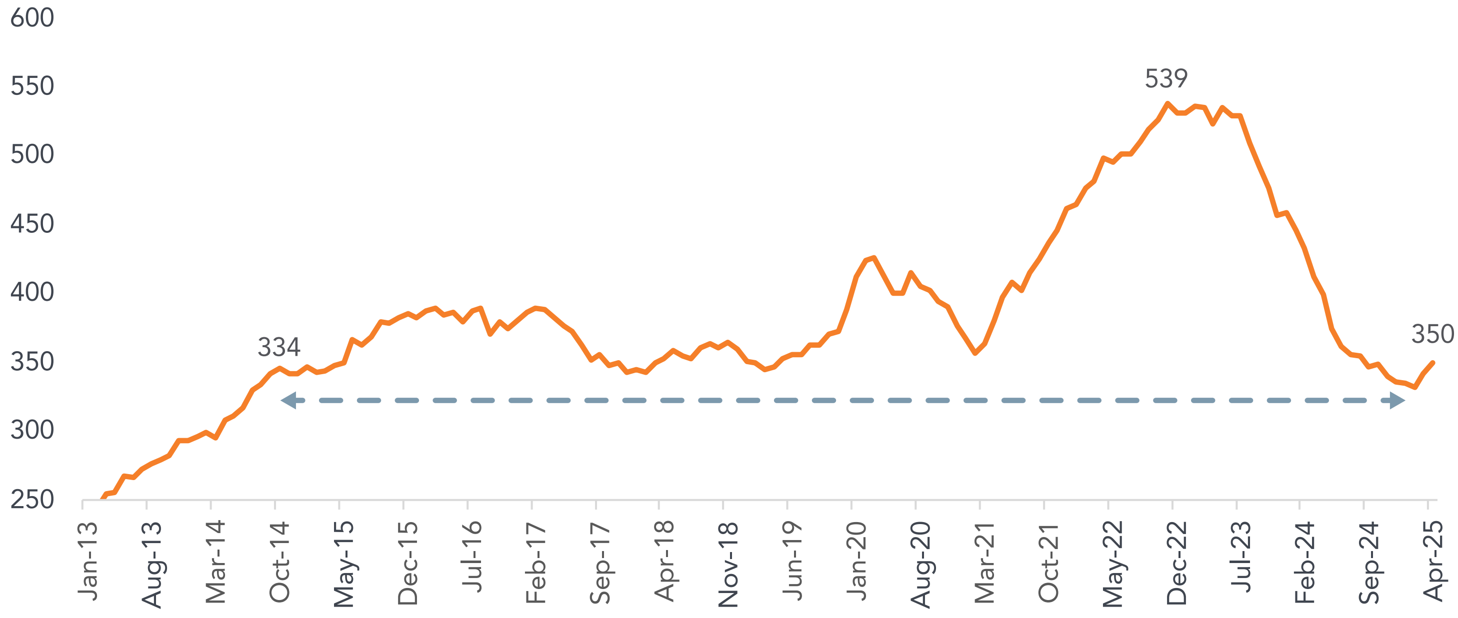


The properties depicted is a representative example of the types of multifamily development properties Griffin Capital has been involved in. **These properties are owned by Griffin Capital or its affiliates.**

Past performance is no guarantee of future results.

U.S. Multifamily Housing Starts Plunge to 10-Year Low

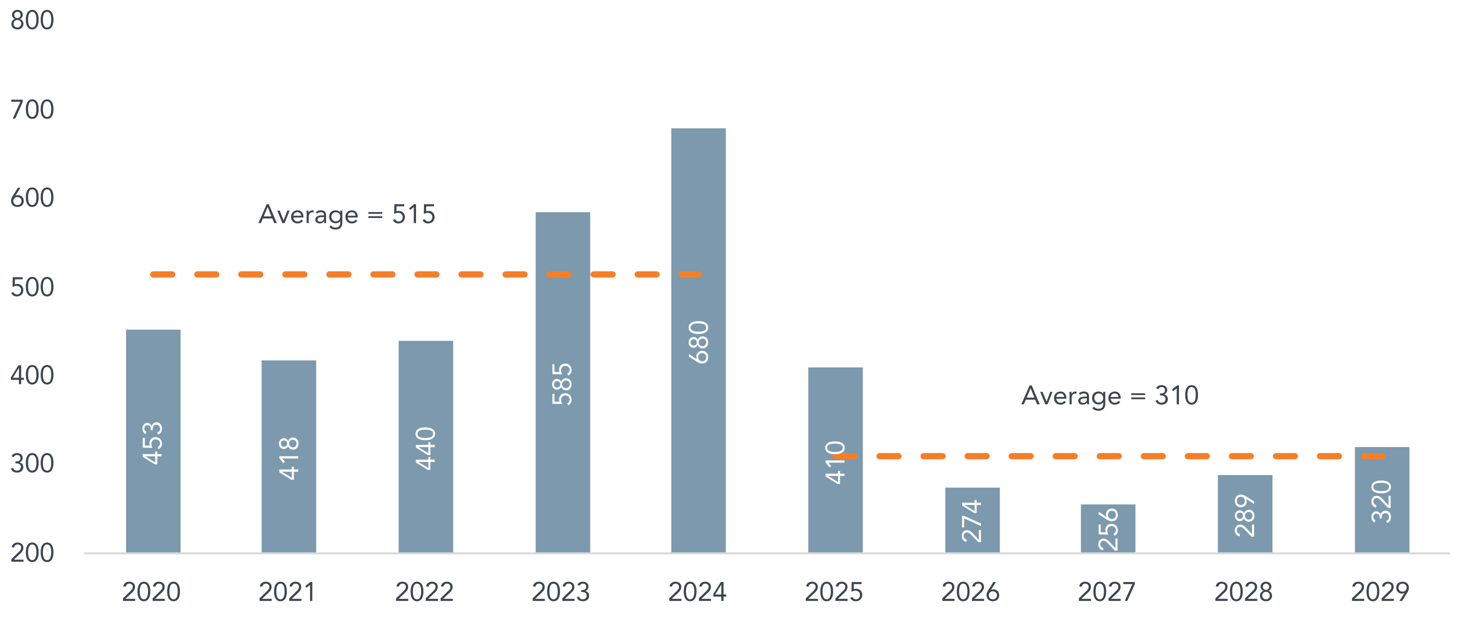
T-12 Multifamily Housing Starts (NSA), in thousands of units



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Started: Units in Buildings with 5 Units or More [HOUST5FNSA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUST5FNSA, May 21, 2025.

Multifamily - Gross Delivered Units

History & Forecast, in thousands of units



Source: CoStar.

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THEME 3

The Demand Story Continues

Housing selection is a binary choice between owning and renting.

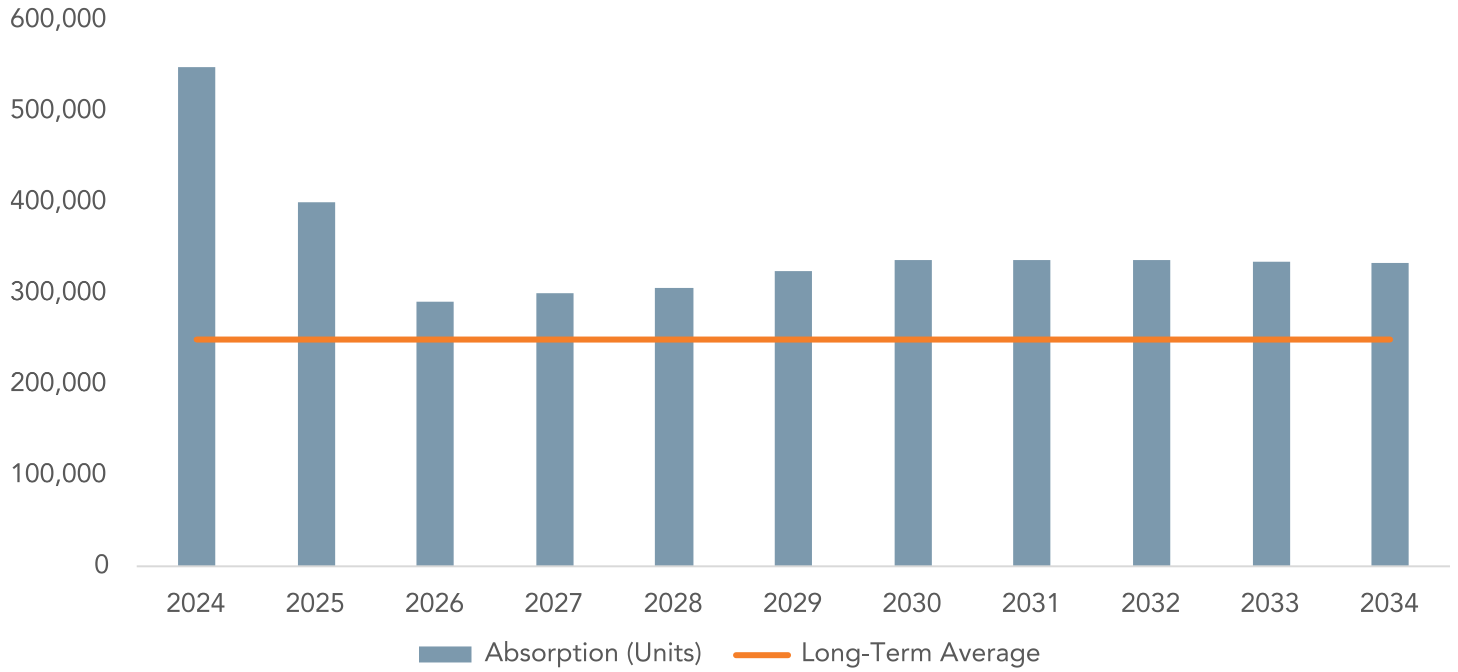
Inadequate single-family housing production dating back to the GFC and limited for-sale inventory created a significant increase in home values over the past three years that has remained sticky. Only 9% of the single-family housing supply being developed is "entry-level,"[7] creating challenges for those who wish to leave the rental pool. With consumer debt rising, personal savings rates declining, and more significant components of our population skewing younger, we anticipate continued strong demand for rental housing. In Q4 2023, Q1 2024, and Q2 2024, the rental market had double the normalized demand, a trend we expect to continue to be elevated over the next several years. Given the decline in new deliveries starting in the second half of 2025, if demand persists as we expect it will, the operating environment for multifamily owners should be advantageous.

Halftime Report

The demand side of the equation has outperformed expectations. We experienced the second strongest leasing season for a Q1 in history. Anecdotally, the prime season for leasing, which is the Spring, is also off to a very promising start. The average age of first-time homebuyers is now 38 years,[8] prolonging the rental journey for a significant portion of the population. We expect continued strong demand through 2025, and as new deliveries continue to decline, we forecast rent growth to accelerate.

Past performance is no guarantee of future results.

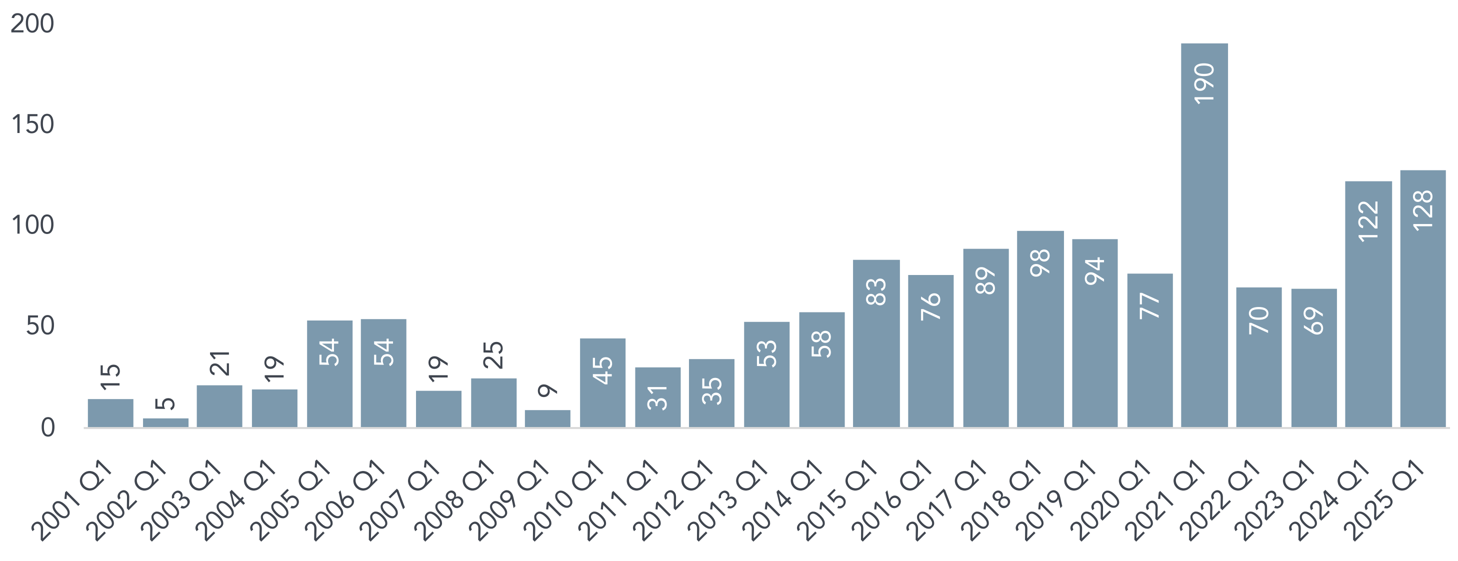
Absorption Relative Long-Term Average



Source: CoStar.

Q1 Absorption

Thousands of Units



Source: CoStar.

Past performance is no guarantee of future results.

THEME 4

Liquidity Returns

As interest rates were rising, valuations were adjusting.

Consequently, transaction markets were muted with buyers and sellers unable to come to a consensus. The Green Street Property Index indicates that values troughed in Q4 2023 and have rebounded ever so slightly over the course of 2024. The NCREIF Property Index, which is a diversified Core Real Estate Index comprised of Institutional Funds, reported a positive total return in Q4 2024, with both income and appreciation components of returns skewing positive. The biggest players have begun to step back into the market with sizeable transactions recorded in the second half of 2024, including Blackstone, KKR, Brookfield, and Equity Residential. This is just the beginning. Market participants are under-allocated to private real estate relative to their target allocations, have significant dry powder earmarked, and multifamily remains a favored sector. As interest rates have stopped rising and fundamentals such as demand remain clearly enduring, 2025 will likely be a year in which transaction volume accelerates meaningfully. Multifamily exposure offers investors portfolio diversification, defensive income, stability, and tax efficiency, all attributes we expect investors to want more exposure to if they are confident valuations have stabilized.

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Halftime Report

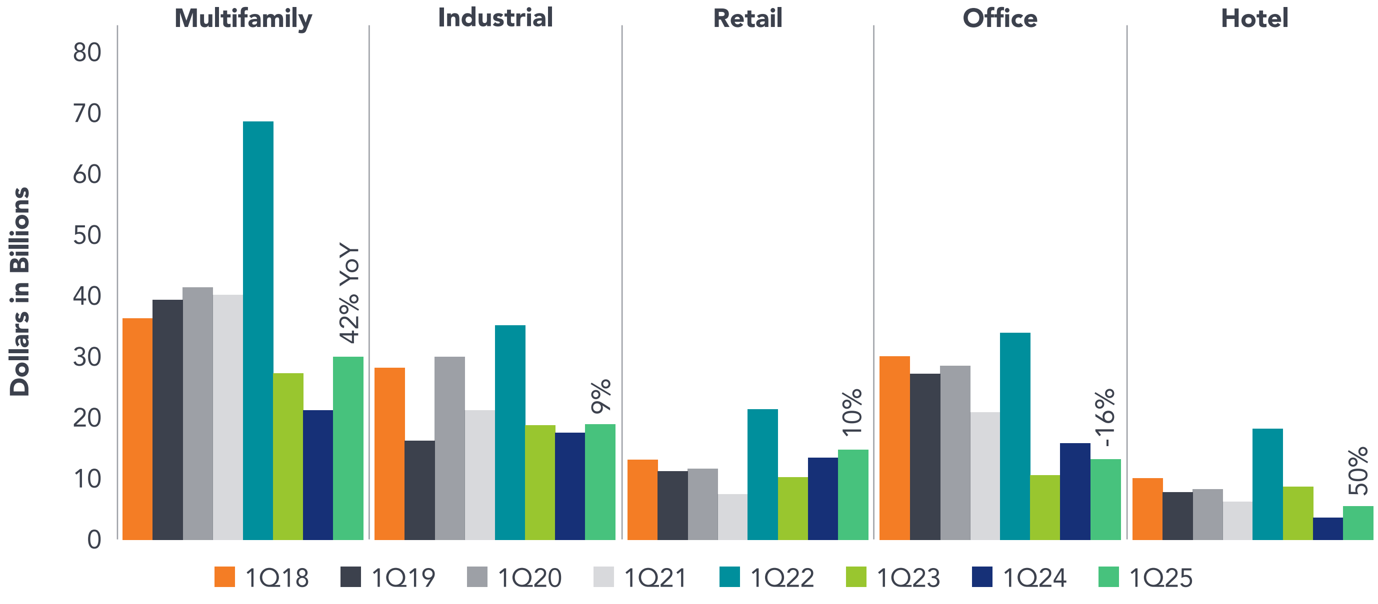
Liquidity in the debt capital markets is improving, predominantly for stabilized assets. Debt funds that raised significant capital over the 2022-2024 period are now compelled to put capital to work in an increasingly competitive environment, which is compressing spreads and benefiting borrowers. Traditional debt providers are also more active, encouraged by improving fundamentals.[9]

However, despite the increased liquidity, transaction activity has been tepid to start the year. While valuations have troughed, broader economic uncertainty remains a hindrance to normalized activity. With more clarity as we move through the year, we expect transaction volume to accelerate.

Past performance is no guarantee of future results.

Transaction Activity in 1Q25 Roughly Flat YoY

Investment Sales Volume



Source: RCA, Newmark Research as of April 21, 2025.

Past performance is no guarantee of future results.

THEME 5

A Tale of Two Halves but a Good Whole

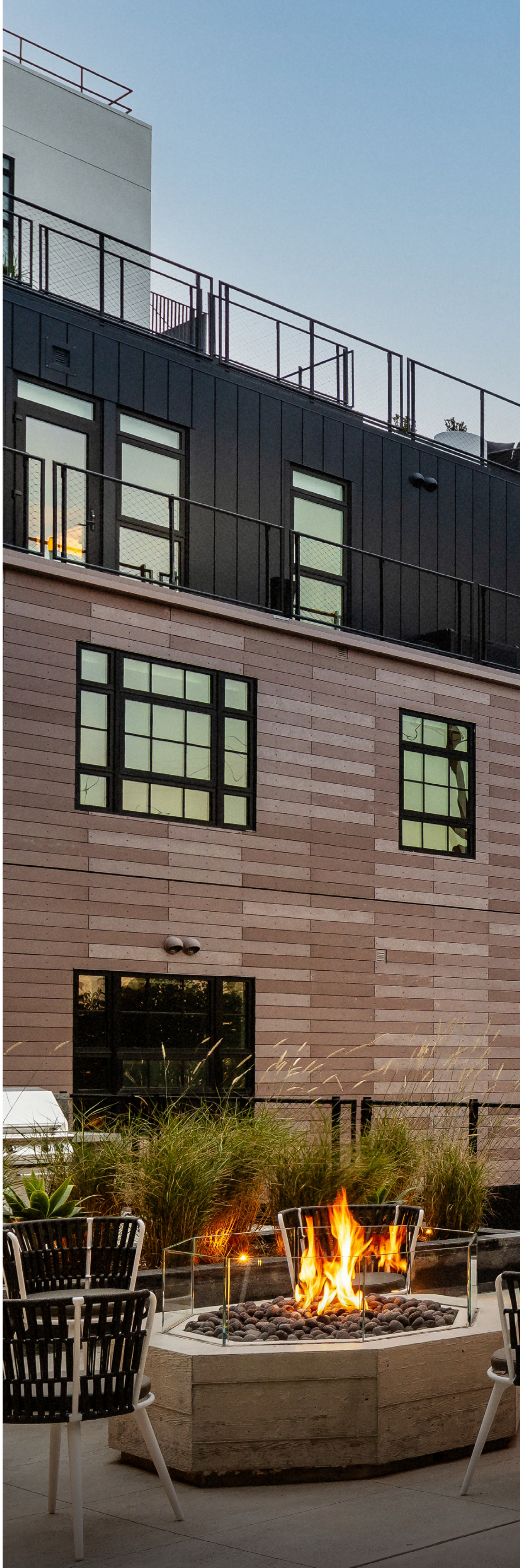
The first half of 2025 is likely to be markedly different than the second half. In the first half, rent growth will remain muted as the last of the new deliveries from the cyclical peak of new supply get absorbed. Housing, trade, and tax policy will be a moving target and have implications relative to interest rates that property market investors will seek to gain clarity on before jumping in with both feet. The headline narrative around real estate will shift slowly from cautious optimism to full-fledged conviction. Investors who place capital in advance of that sea change will likely benefit the most as we move through the cycle, but the dispersion of returns across the 2025 entry point will likely not have a dramatic impact on investors. We expect 2025 will be viewed in a historical context as an attractive vintage for capital deployment.

Halftime Report

We maintain our conviction that the first and last six months of 2025 will be different, for the reasons outlined. We anticipate that capital deployment in 2025 will be rewarded over the intermediate and long-term. While we expect valuations will not adjust meaningfully over the entire 12-month period, we believe that multifamily operations will begin to improve, which is already starting to materialize.

As trade policy becomes more clear and the tax policy framework is established, investor confidence is likely to increase. With that clarity, the capital deployment cycle will begin in earnest. Investors seeking portfolio diversification strategies may find it beneficial to begin increasing their allocations to private real estate over the ensuing 24 months.

Past performance is no guarantee of future results.



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ENDNOTES

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CAPITAL PARTNERS

INDUSTRIAL REAL ESTATE

Exploring the factors that are driving the industrial real estate market today and in the years ahead.

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Investing in Industrial Estate: Capitalizing on the Resurgence of American Manufacturing

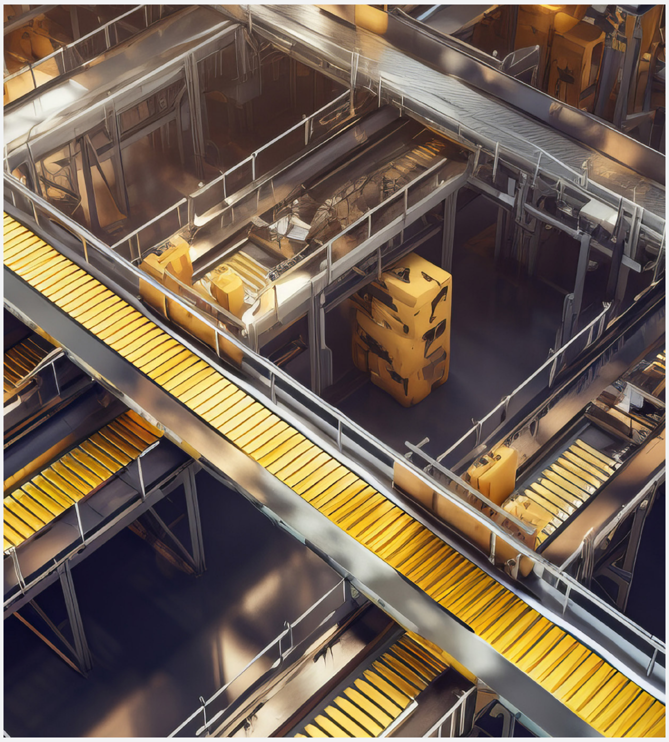
In the evolving landscape of alternative investments, industrial real estate has emerged as a compelling asset class, particularly within the context of the U.S. manufacturing resurgence. Driven by macroeconomic trends such as reshoring, tariff policy shifts, and supply chain recalibration, demand for specialized industrial properties continues to rise. As we enter the second half of 2025, the industrial sector—especially facilities tied to manufacturing and logistics—is expected to outperform many traditional asset classes due to its resilient fundamentals and strategic importance in the domestic economy.

1. The Macro Case for Industrial Real Estate

The U.S. economy has undergone a structural pivot since the pandemic, with a renewed focus on domestic production, logistical efficiency, and supply chain resilience. Key macroeconomic drivers include:

- GDP Growth & Inflation Trends: After moderate GDP growth of 1.9% in Q1 2025, forecasts for Q3 and Q4 remain positive due to strong consumer spending and continued federal investment in infrastructure. Inflation has cooled to 2.6% YoY as of May 2025, leading to improved investor sentiment and reduced interest rate volatility.
- Interest Rate Environment: The Federal Reserve has paused its rate hikes and signaled potential cuts in late 2025, which is expected to improve borrowing costs and transactional velocity across real estate sectors.
- Reshoring Momentum: According to the Reshoring Initiative, over 450,000 manufacturing jobs were announced in 2024, a 30% increase over 2023. This trend continues into 2025 as firms relocate operations to mitigate geopolitical and logistical risks.

The challenge and opportunity for the industrial real estate sector is that the industrial sector needs Industrial Real Estate-grade assets to fuel it.



2. Tariffs, Trade Policy, and Domestic Supply Chains

Industrial real estate has directly benefited from the shifting trade landscape. Key impacts include:

- Tariff Impacts: Ongoing tariffs on Chinese goods, combined with incentives from the CHIPS and Science Act and Inflation Reduction Act, are motivating manufacturers to relocate operations to U.S. soil. Steel, electronics, and automotive sectors are among the primary drivers.
- Investor Considerations: While tariffs may raise costs for imported materials and components, they also create long-term investment opportunities by accelerating reshoring and regionalization trends. Industrial real estate assets—particularly those supporting advanced manufacturing and logistics—stand to gain from increased demand, tighter supply, and strategic tenant partnerships.
- Regionalization of Supply Chains: Multinational corporations are increasingly favoring nearshoring and reshoring strategies. Mexico and the U.S. are becoming preferred production hubs for North American distribution, creating demand for warehouse and light manufacturing facilities.
- Government Investment: Over $280 billion in federal funding (2022–2024) has been allocated to build domestic semiconductor plants and other high-tech manufacturing centers. These initiatives create ripple effects in real estate demand for logistics and support infrastructure.

Manufacturing comprises 60% of American exports and a remarkable 70% of business R&D spending. Given its relatively small share of GDP, it is an outsized destination for capital, attracting nearly a third of American investment.

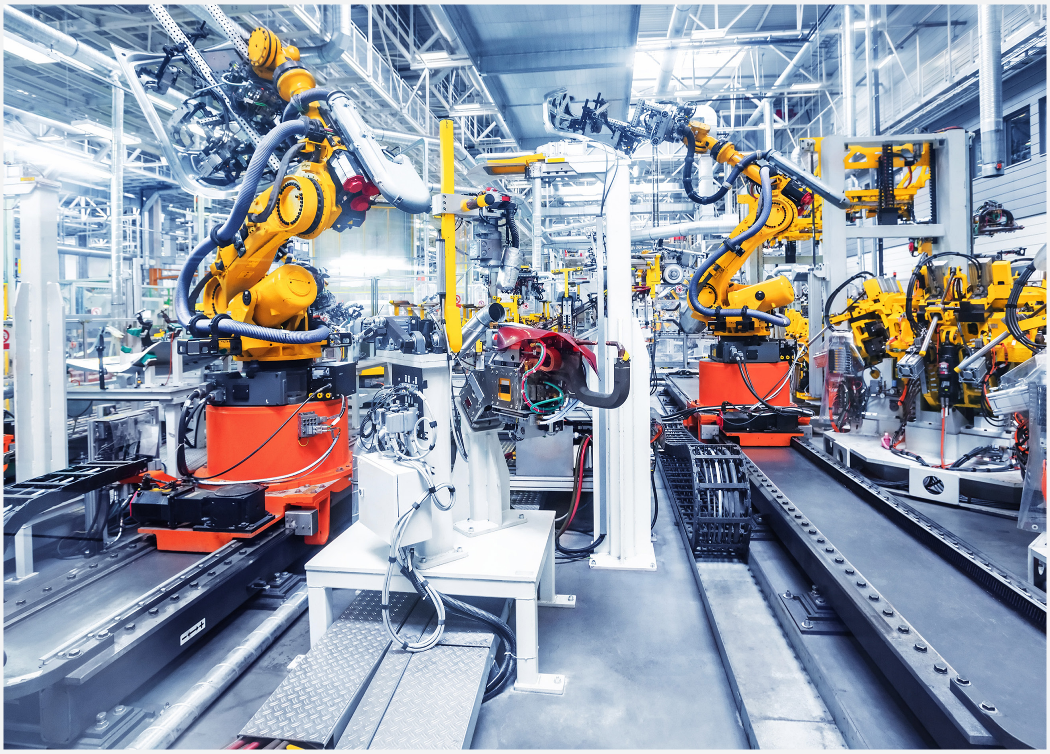
3. Industrial Real Estate Performance and Outlook (2025)

- Vacancy and Rent Growth: National industrial vacancy rates have stabilized at 4.2% in Q2 2025 after a slight uptick in 2023. Rent growth remains strong, with a national average increase of 5.7% YoY.

- Capital Flows: Industrial assets attracted over $65 billion in investment in 2024, with projections suggesting another$70 billion in 2025 as institutions increase allocations to core-plus and value-add industrial strategies.

- Tenant Demand: E-commerce, third-party logistics (3PL), and advanced manufacturing are driving long-term leases, particularly for single-tenant net-leased facilities in the Midwest and Southeast U.S.

- Top Performing Regions:
    - Midwest (Indiana, Ohio, Michigan): Benefiting from automotive and battery production reshoring.
    - Texas: Attracting semiconductor and aerospace investment.
    - Southeast (Georgia, Tennessee): Seeing logistics expansion tied to port access and population growth.



4. Strategic Role in Diversified Portfolios

For financial professionals incorporating alternative investments into client portfolios, industrial real estate offers:

- Inflation Hedging: Long-term leases with built-in escalations help preserve purchasing power.
- Steady Cash Flow: High occupancy and creditworthy tenants generate predictable income.
- Low Correlation: Performance tends to be resilient during equity market volatility.
- ESG Alignment: Facilities aligned with clean manufacturing and energy efficiency goals contribute to sustainability objectives.

5. Conclusion: Outlook for H2 2025 and Beyond

- Industrial real estate stands at the intersection of macroeconomic opportunity and portfolio diversification. As the U.S. manufacturing base strengthens and geopolitical uncertainty persists, investor demand for strategically located, income-generating industrial properties is poised to grow.
- While challenges such as construction costs and tenant concentration risks remain, the fundamentals of American industrial real estate remain robust. Advisors seeking to incorporate durable, income-focused assets into their clients' portfolios should consider the long-term potential of this sector.
- Reshoring of manufacturing capabilities is a national concensus strategy, based on policies under recent US administrations on both sides of the political spectrum. Expectations are for continued policies and incentives to onshore production for national security and economic interests, further our thesis of mid- to long-term demand growth that undergird the industrial sector.

While industrial real estate is influenced by the broader economy, it stands as a more resilient performer than other real estate segments.

Peachtree Group

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Navigating the Reset:

How Investors Can Capitalize on CRE Dislocation

The Era of Private Credit and Special Situations Capital

The commercial real estate sector continues to undergo a seismic transformation. The dislocation has been ongoing, but the shift now is that it's likely to persist for years. After more than a decade of outsized returns fueled by low interest rates, abundant liquidity and cap rate compression, the era of commercial real estate (CRE) overperformance is behind us. In its place: a complex, dislocated market ripe with opportunity.

While headlines are filled with distress, rising delinquencies, maturing debt, tightening bank lending, and falling property values, beneath this turmoil lies a new wave of potential, especially for private credit and special situations capital.

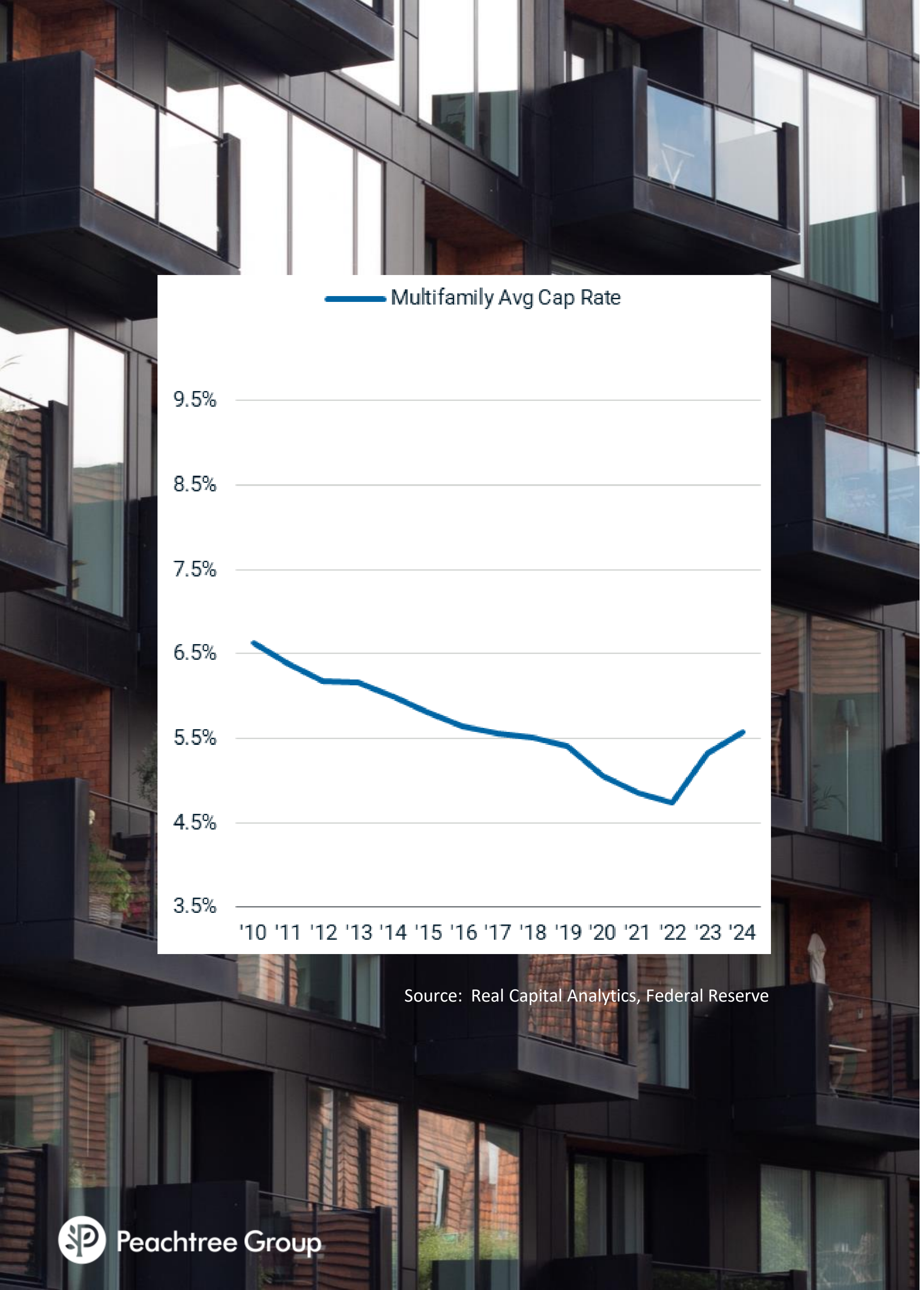
In this environment, winners won't be passive buyers of stabilized assets; they'll be strategic operators, creative financiers and disciplined risk managers who step into the gaps others can't or won't fill.

Capital gaps: where traditional lenders have pulled back, creating a shortage of available financing, especially for transitional or distressed assets.

Operational gaps: where underperforming or mismanaged assets need hands-on expertise to stabilize or reposition them.

Liquidity gaps: where sellers are forced to transact but lack enough buyer demand, often due to pricing mismatches or risk aversion.

Capability gaps: where complexity (e.g., legal, financial, or structural) deters most investors, but experienced operators see opportunity.



Source: Real Capital Analytics, Federal Reserve

Why CRE is No Longer Overperforming

The End of Zero Rates and the Compression Game

U.S. Federal Reserve Chair Jerome Powell has made it clear: interest rates are not returning to the near-zero levels seen between 2009 and 2017. That shift alone has turned the CRE world on its head. To fully appreciate the magnitude of change, it's worth comparing today's environment to the pre-2008 era, when the 10-year Treasury yield commonly ranged from 4.5% to 5.5% and commercial real estate was underwritten with higher exit cap rates and more conservative leverage. In contrast, the post-GFC period saw historically low rates, massive liquidity injections and unprecedented compression of cap rates, conditions that fueled a wave of price appreciation often mistaken for durable alpha.

Now, the pendulum has swung back. Cap rates, which had fallen to historically low levels, particularly in multifamily and core assets, are now expanding. Assets once priced at 3.5% cap rates must now compete in a world where financing costs alone exceed 6%.

From 2021 to 2022, cap rates for top multifamily properties fell below 4%, with the overall average reaching a low of 4.74%. Today, they've normalized to 5–6% and climbing. The repricing is underway and it's dramatic. This has immediate implications for valuations and underwriting.

Previously acceptable leverage points now look aggressive. Once plausible exit assumptions are being revised. The returns investors once expected passively are now only achievable through proactive repositioning and value creation. It should be note that from 2012 to 2019, core and core-plus investors achieved strong risk-adjusted returns without active management. But that era is gone, alpha is earned through:

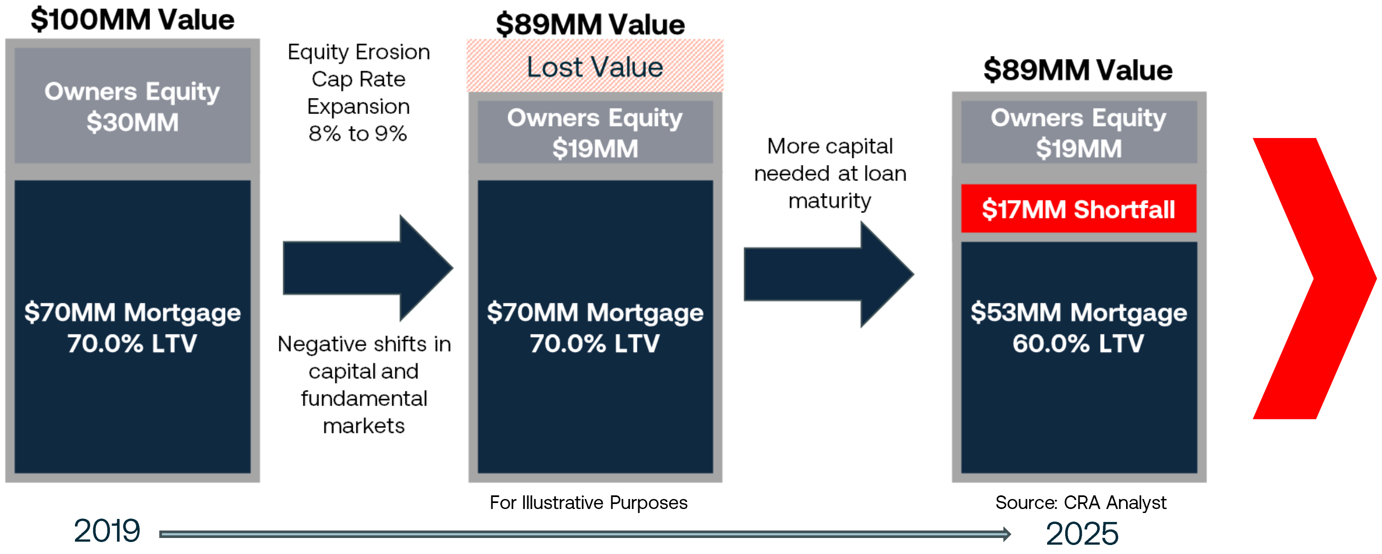
- Identifying and executing opportunities where traditional capital has stepped back
- Driving performance through operational expertise and active asset management
- Structuring capital to solve complex financing and ownership challenges.

Peachtree Group

The Maturity Wall Is Here

A tidal wave of debt maturities is colliding with a higher interest rate environment, placing immense strain on existing capital structures. This dynamic is forcing a reevaluation of traditional loan-to-value assumptions as declining valuations and rising debt costs shrink the amount of senior financing available for refinancing. Borrowers are increasingly facing multimillion-dollar equity recapitalization requirements just to maintain their positions, creating a growing pool of motivated sellers and distressed situations.

For special situation investors, this dislocation presents attractive entry points, often at a significant discount to replacement cost, through rescue capital, preferred equity or direct asset acquisitions.



Today's Owner's Options

Inject Fresh Equity

Recapitalize Higher in the Capital Stack
(Preferred Equity / Mezzanine Debt)

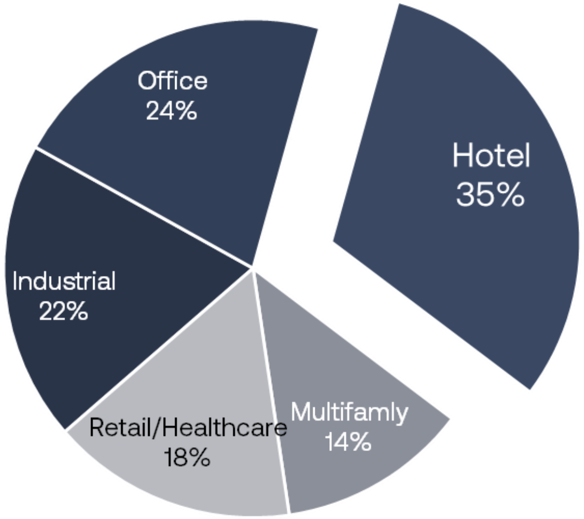
Sell — Voluntarily or Through Default

The Maturity Wall Is Here

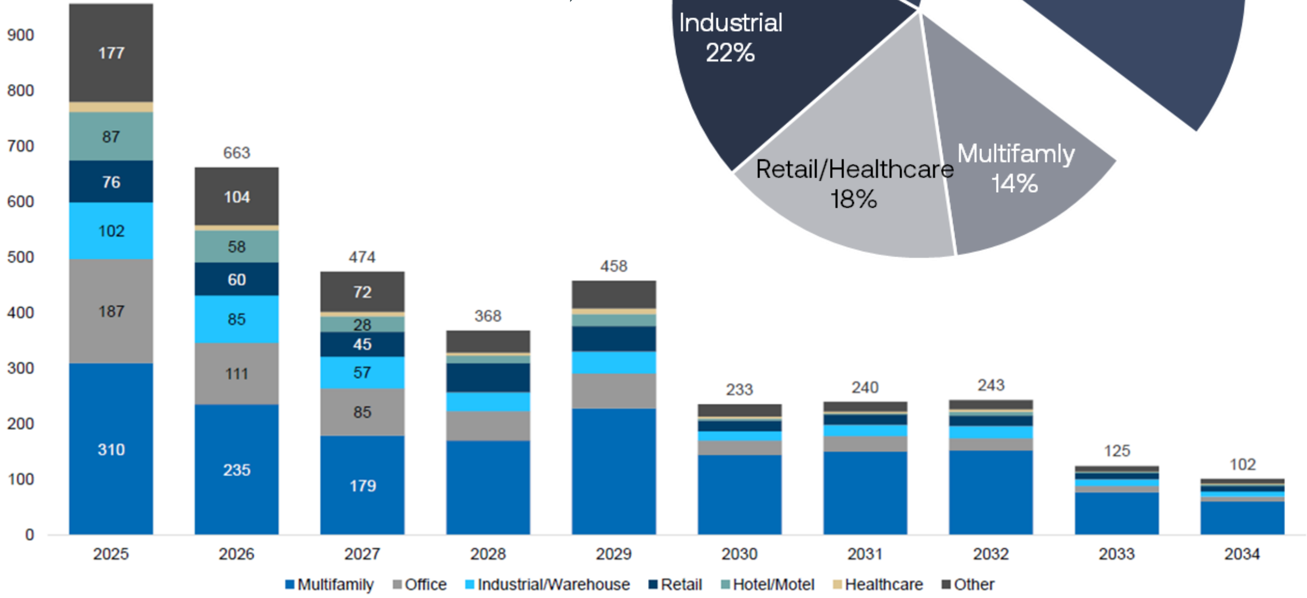
In 2025 alone, nearly $957 billion in CRE loans will come due, according to Newmark Research. More than $335 billion of that is tied to hotels, which are still recovering from pandemic-related disruptions and face tens of billions of dollars in deferred capital expenditures.

The refinancing math no longer works in many cases. A $100 million asset purchased at an 8% cap rate in 2019 may now appraise at $85–90 million and can only support 60% LTV lending at today's terms. That leaves owners with large shortfalls that must be filled by new equity, preferred equity or distressed sales.

Source: Mortgage Bankers Association (MBA) February 2025



$957 Billion

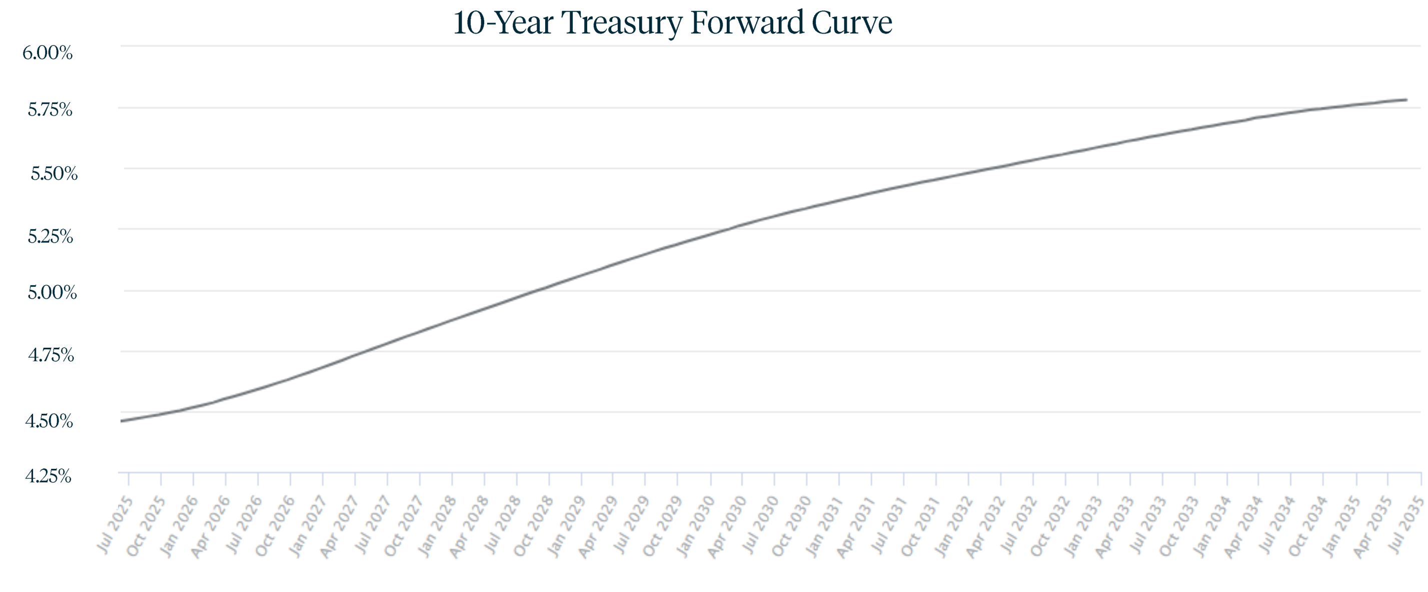


Source: Newmark Research (Jan. 2025)

Long-Term Rates Signal a Structural Reset

Forward yield curves are sending a clear message: the cost of capital is expected to remain elevated for the foreseeable future. The market-implied forward curve for the 10-year U.S. Treasury shows yields rising from 4.46% in July 2025 to 5.78% by July 2035. This steepening trajectory reflects persistent inflationary pressures, fiscal imbalances and the unwinding of years of ultra-accommodative monetary policy.

For CRE investors, this shift has profound implications. Higher benchmark rates directly impact cap rate assumptions, compress valuations and raise discount rates used in underwriting. Assets acquired at low cap rates now face downward revaluation risk, particularly if NOI growth cannot outpace rising costs of debt and equity capital. As a result, investment theses reliant on cap rate compression or aggressive exit multiples are no longer viable. Investors must pivot toward strategies that emphasize income durability, capital structure creativity and asset-level value creation.



Source: Chatham Financial

Traditional Lending Channels Are Constrained

CRE lending from banks, historically the backbone of real estate finance, is sharply down. The Mortgage Bankers Association reported a 43% decline in CRE lending in 2023. The CMBS and CLO markets have followed suit, and the Federal Reserve has acknowledged that CRE risks will weigh on bank balance sheets for years.

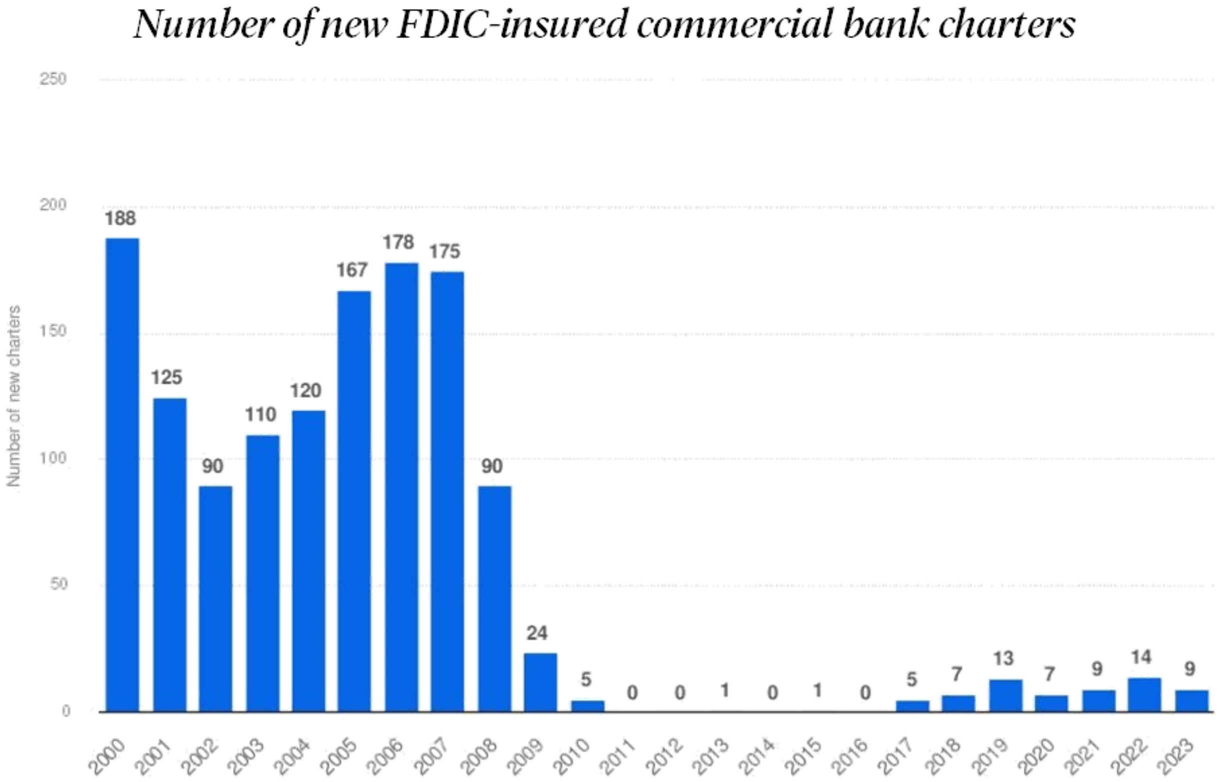
Powell's remarks mirror what Trepp data shows: in the GFC, CMBS delinquencies peaked five years after the market broke. Today's slowdown could follow a similar timeline, suggesting that distress and dislocation will persist long term.

"CRE risks will be with banks for years." — Jerome Powell, May 2024

In this vacuum, private credit is rising to prominence not as a capital source of last resort but a strategic portfolio solution. Well-capitalized investors are increasingly deploying private capital vehicles to fill the funding gaps left by traditional lenders. These capital solutions offer enhanced yield profiles, better downside protections and greater structural flexibility, attributes that are critical in today's volatile environment. Private credit has become an essential tool for constructing resilient, income-generating real estate allocations amidst constrained credit markets.

Operating Costs Are Squeezing Margins

Beyond capital costs, operating expenses are surging, led by skyrocketing insurance premiums, labor shortages and property taxes. These inflationary pressures erode NOI and strain debt service coverage ratios. As profit margins are compressed, the bar for underwriting discipline and operating efficiency has risen. Investors can no longer rely solely on rental growth to support returns. Every dollar saved in operations becomes capital that can preserve the asset or be reinvested to unlock further upside.



Source: FDIC and Statista 2024

The private credit market has grown by 50% in the past four years to $1.7 trillion – and expect it to balloon to $30 trillion in size looking forward.

Special Situations Investing: Dislocation Creates Opportunity

The current CRE landscape is defined by higher cap rates, lower valuations, constrained lending, refinancing shortfalls, deferred capital expenditures and underperformance, with limited institutional risk appetite. This is the definition of dislocation. For those who can step in with flexible capital, deep underwriting capabilities and operational expertise, it's a once-in-a-cycle chance to capture alpha.

The role of private credit and special situation capital is increasingly viewed not just as an alternative but as a primary source of financing. In a market where senior loans are difficult to obtain, preferred equity, mezzanine debt and bridge loans fill the void. These instruments offer equity-like returns with enhanced downside protection, making them particularly attractive in today's risk-reward equation. Other avenues include non-performing loan acquisitions, note-on-note strategies and recapitalizations of undercapitalized sponsors are now front and center. Many come with embedded control rights, discounted entry points and the potential to convert into equity.

Despite market stress, strong returns can still be made but not in traditional ways. Special situations capital can now invest in assets at 20–40% discounts to peak pricing.

As loan volumes decline while debt maturities surge, this mismatch sets the stage for well-capitalized investors to step in and purchase distressed debt, provide rescue capital or acquire assets directly from motivated sellers. Importantly, long-duration patient capital is particularly well-positioned to capitalize on this dislocation. Unlike more rate-sensitive or redemption-constrained capital, these investors can underwrite through volatility, take a longer view on repositioning and unlock value from complex situations where others are structurally unable to compete.

In closing, what sets the most successful investors apart in this cycle is their ability to execute not only at the capital level but also at the property level. In-house teams that oversee asset management, property operations and capital projects can move with speed and precision. This operational control allows investors to stabilize distressed assets faster, implement value-enhancing strategies and manage downside risks more effectively than external managers or financial-only platforms.

As Deloitte’s 2025 Commercial Real Estate Outlook noted, success in this environment depends on navigating the intersection of capital markets complexity and property-level operational challenges. This moment calls for strategic operators, creative financiers and disciplined risk managers. Passive strategies that worked in the last cycle will not work in this one. The winners will be those prepared to lead through the cycle, not follow it.

Special Situations Investing: The Opportunities

Step Into the Capital Void
What's Happening: Traditional lenders are pulling back due to balance sheet pressure, Basel III rules and regulatory scrutiny.

How to Take Advantage:

- Provide rescue capital, preferred equity, or mezzanine financing to fill gaps.
- Acquire non-performing loans from banks looking to de-risk.
- Offer structured capital where others can't underwrite the complexity.

Focus on Assets with Deferred CapEx
What's Happening: ~$20B in postponed renovations is accelerating asset turnover.

How to Take Advantage:

- Pursue value-add strategies by stepping into ownership and executing PIPs and repositionings.
- Use in-house construction and operations to control execution risk/costs.
- Rebrand under premium flags to unlock RevPAR growth and margin expansion.

Leverage Vertically Integrated Capabilities
What's Happening: Complexity is high with many investors lacking operational skill or execution ability.

How to Take Advantage:

- Use a vertically integrated platform to move from sourcing to stabilization.
- Underwrite efficiently, close quickly and manage directly to create value.
- Be a problem-solver for borrowers, brands and banks.

Acquire at a Discount
What's Happening: Cap rate expansion and higher interest rates are creating forced sellers and equity erosion.

How to Take Advantage:

- Target control-oriented acquisitions at a discount to replacement cost.
- Buy from motivated sellers or lenders at distressed pricing.
- Focus on assets with path to control (loan-to-own strategies, deed-in-lieu, foreclosure).

Deploy Capital into Event-Driven Distress
What's Happening: Debt maturities, broken capital stacks and sponsor fatigue are driving urgency.

How to Take Advantage:

- Target recapitalizations and GP-led workouts.
- Source deals from legal processes (bankruptcy, foreclosure, receivership).
- Offer flexible capital that can navigate court-supervised or franchisor-constrained situations.

Peachtree Group

Navigating the Reset:
How Investors Can Capitalize on CRE Dislocation

Pender
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Pender Capital

Cory Johnson And Zach Murphy

As we approach 2025, the landscape of commercial real estate (CRE) is poised for significant transformation. Private commercial real estate debt funds are expected to thrive in this evolving environment, driven by a confluence of market dynamics, investor demand, and structural advantages. This article explores the key reasons behind the anticipated success of these funds in the coming year, revealing why we're doubling down on our 2024 predictions.

Maturing Loans and Refinancing Needs

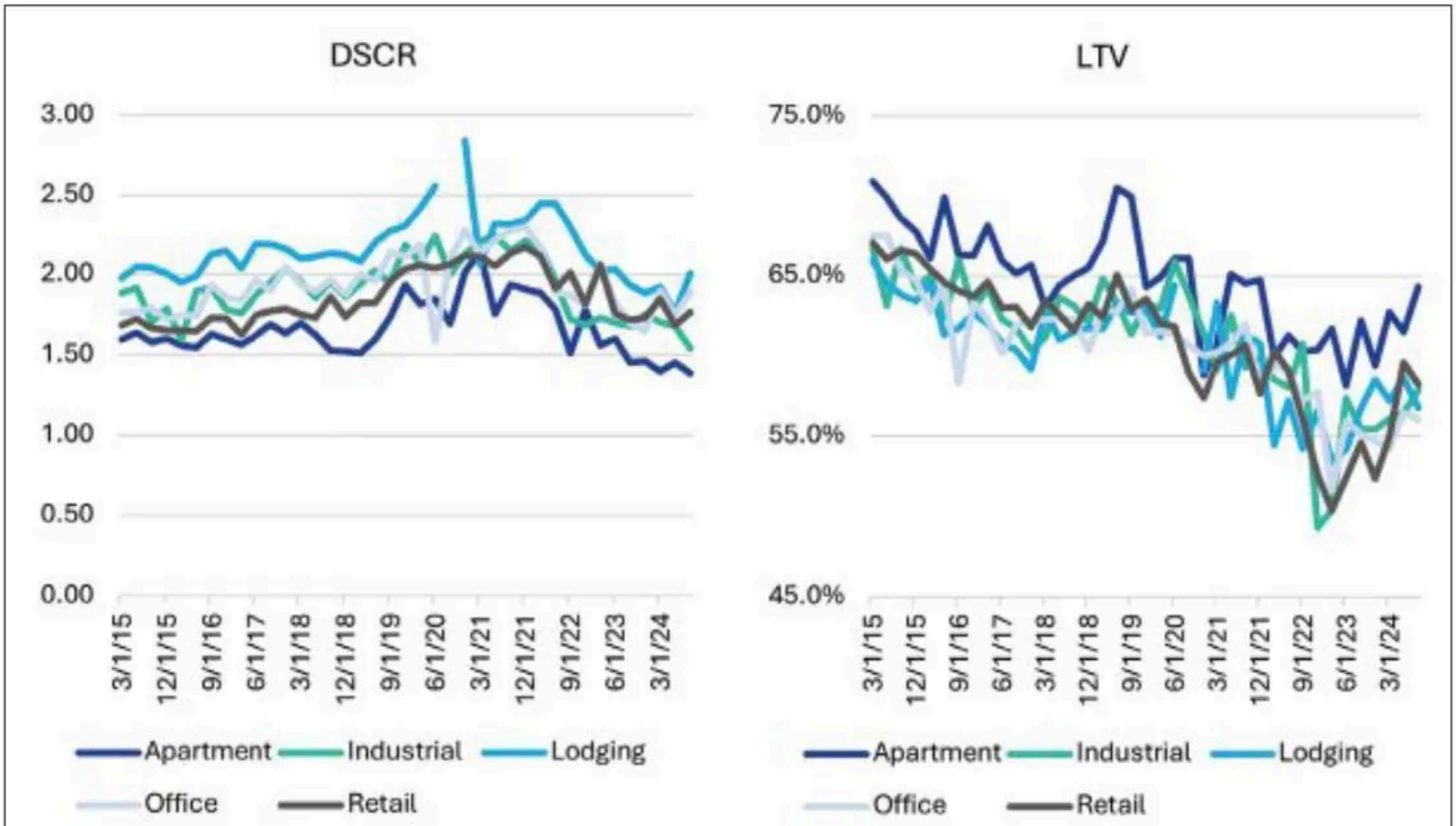
One of the most compelling factors contributing to the growth of private commercial real estate debt funds is the impending maturity of nearly $1.2 trillion in CRE loans by the end of 2025. As these loans come due, borrowers will face the critical need to refinance. Despite decreasing interest rates which are expected to continue well into next year, regional banks remain dislocated and offerings from traditional lenders remain weak. There are no indicators that conventional lending is turning. In fact, we see more disengagement in the CRE lending space due to economic uncertainties, creating a gap that private debt funds can (and will) fill. These funds are often more flexible and can provide tailored financing solutions that meet the specific needs of borrowers, making them an attractive option in a tightening credit environment.

Stabilization of the CRE Market

The commercial real estate market is showing signs of stabilization, which is crucial for the success of debt funds. According to recent analyses, the outlook for 2025 indicates increasing clarity and ample opportunities for intelligent and agile players in the market. As the economy continues to recover from the disruptions caused by the pandemic, sectors such as industrial, multifamily, and logistics are expected to continue to perform well. This stabilization will enhance the creditworthiness of borrowers, thereby reducing the risk for private debt funds and encouraging investment.

Demand for Alternative Financing Solutions

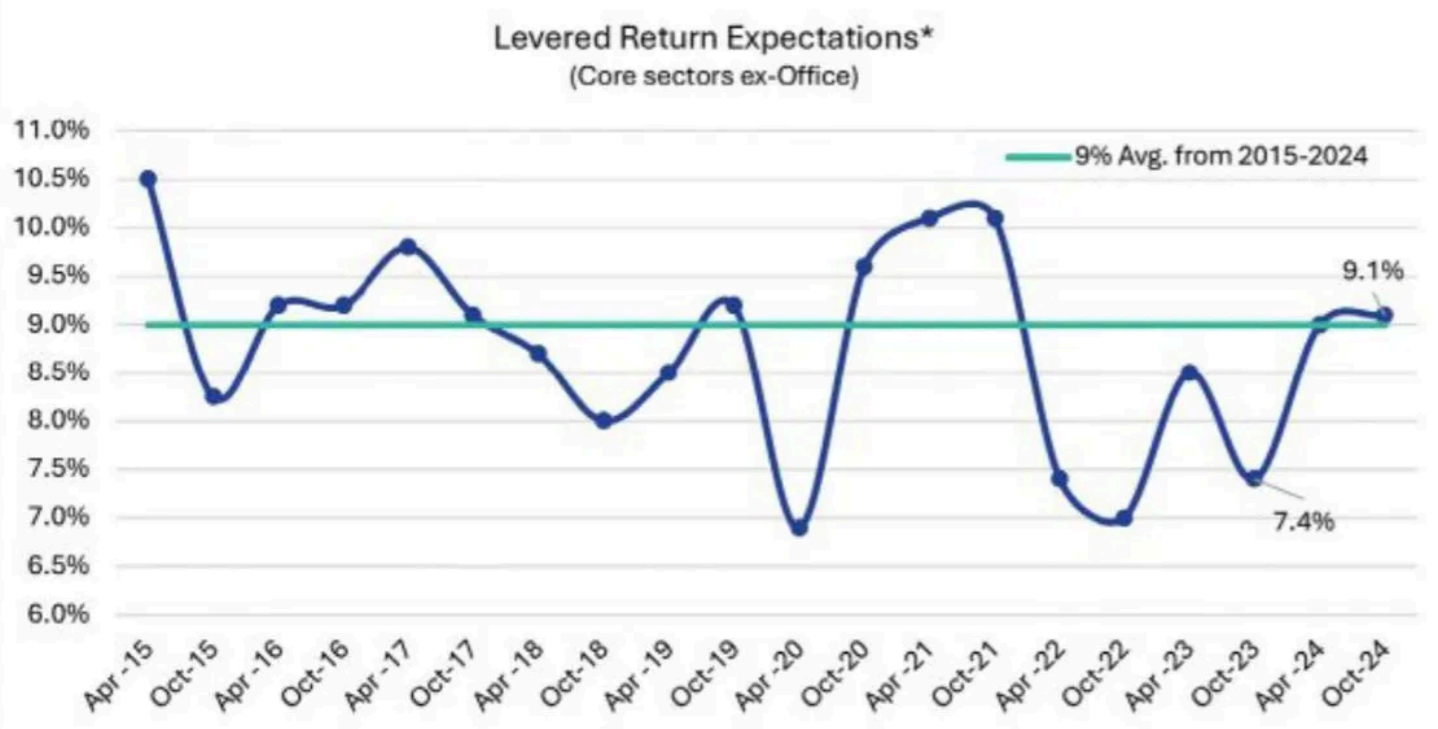
In an era where traditional banks are tightening their lending criteria, the demand for alternative financing solutions remains on the rise. Private commercial real estate debt funds offer a viable alternative, providing quicker access to capital and more flexible terms than conventional lenders. This shift in borrower preference is likely to persist as businesses seek to navigate the complexities of the post-pandemic economy. The ability of private debt funds to adapt to changing market conditions and borrower needs positions them favorably for continued growth.



Source: Green Street - U.S. CMBS Observer - 3Q24. As of October 31, 2024

Attractive Risk-Adjusted Returns

Investors are increasingly drawn to private CRE debt funds due to their potential for attractive risk-adjusted returns. In a low-interest-rate environment, traditional fixed-income investments may not yield sufficient returns, prompting investors to seek higher-yielding alternatives. Private debt funds typically offer higher interest rates compared to traditional debt instruments, making them an appealing option for income-focused investors. As the market evolves, the ability of these funds to deliver consistent returns will further solidify their position in the investment landscape. Further, with the assets of private debt funds sitting in a secured position, the risk lessens with lien position, strong underwriting and favorable loan-to-value (LTV) ratios.



*Assumes conventional secured debt and a 60% LTV Ratio
Source: Federal Reserve, Cushman & Wakefield, Green Street. As of November 12, 2024.

Diversification Benefits

Private CRE debt funds provide investors with diversification benefits that are particularly appealing in uncertain economic times. By investing in a range of properties across various sectors and geographic locations, these funds can mitigate risks associated with individual investments. This diversification not only enhances the stability of returns but also aligns with the growing trend among institutional investors to seek exposure to alternative asset classes. As more investors have recognized the advantages of including private debt in their portfolios, the continued demand for these funds is likely to increase.

Regulatory Environment

The regulatory landscape is also evolving in a manner that favors private CRE debt funds. As regulations surrounding traditional banking and lending practices become more stringent, private debt funds are often less encumbered by such constraints. This flexibility allows them to respond more swiftly to market opportunities and borrower needs. Furthermore, the increasing acceptance of private debt as a legitimate asset class among institutional investors has enhanced the credibility and attractiveness of these funds.

Downside a Hidden Upside

Private CRE credit funds are generally at the top of the capital stack, generating fairly predictable returns for investors. However, with the present opportunities these vehicles don't have to remain as predictable. Loosening of capital constraints will generate higher-than-expected returns for a well-balanced portfolio. Presently, the demand for highquality private credit deployment is greatly outpacing the current capital raise, which will continue to logjam unless investors act. Significant investment inflows will not cause cash drag, as pipelines are full of quality assets. With the opportunities for the private CRE credit space already here and increasing daily, investors will be rewarded for capital placement in these vehicles.

Conclusion

The continued success of private commercial real estate debt funds in 2025 can be attributed to several interrelated factors, including the maturation of existing loans, stabilization of the CRE market, rising demand for alternative financing solutions, attractive risk-adjusted returns, diversification benefits, and a favorable regulatory environment. As the market evolves, these funds are well-positioned to capitalize on emerging opportunities, making them a critical component of the commercial real estate financing landscape in the coming year. Investors and borrowers alike should keep a close eye on this dynamic sector as it navigates the complexities of the post-pandemic economy.

Cory Johnson is Co-Founder and CEO and Zach Murphy is Co-Founder and CIO of Pender Capital.

Learn more at www.pendercapital.com.

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RBC BlueBay
Asset Management

RBC BlueBay Asset Management

Distressed Debt: investor opportunities in 2025

For professional investors only | Marketing communication

Adam Phillips
Head of BlueBay Developed Market Special Situations

Duncan Farley
Portfolio Manager, Developed Market Special Situations

Dillon Neale
Institutional Portfolio Manager

Published January 2025

Key takeaways

- European Special Situation markets have seen a rise in liability management exercises, which in turn has led to large co-op agreements between creditors.
- The European business cycle has diverged from the US, which is creating a strong pipeline of opportunities for European Special Situations investors.
- The outlook for 2025 in Europe is fraught with uncertainty due to economic weakness, political instability, and layoffs in key economies, yet sectors present opportunities.

European businesses have navigated a tumultuous landscape of late, characterised by a high interest rate environment, the lingering effects of Covid, soaring energy prices, and waning consumer confidence. Despite a slight improvement in 2024, distress levels across the continent remain elevated. The anticipated interest rate reductions have been slow to materialise, with inflation rates proving unpredictable. Companies continue to grapple with liquidity challenges that originated during the pandemic, while the post-Covid era has seen a significant number of corporates struggle with profitability, with many unable to return to pre-pandemic levels.

2024's key trends:

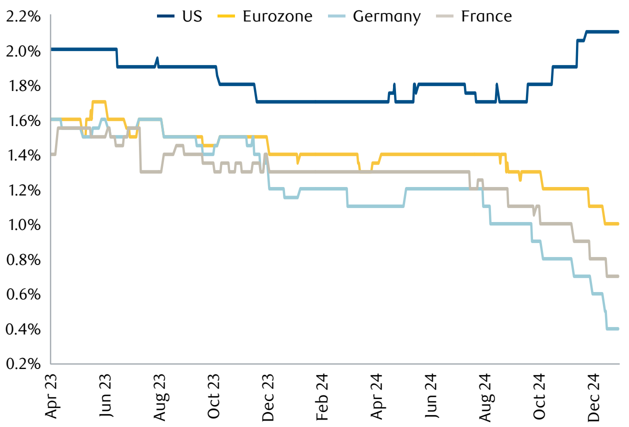
1. **Rise of co-op agreements**
   Co-op agreements have gained traction in Europe, particularly for large-scale restructurings, as a response to creditor-on-creditor and sponsor-on-creditor violence. Liability management exercises (LMEs) have historically been less popular in Europe, but saw a rise in 2024 as companies struggling to raise financing required more aggressive tactics for restructuring deals. In order for creditors to protect themselves, co-op agreements, where creditors within a class or across classes agree to behave by a certain set of rules outside of a credit agreement or indenture in theory, have been utilised as an added protection to the benefit of all creditors. 2024 was the year of the mega co-op between creditors of companies including Dish Network, Altice, iHeartMedia, Ardagh, and Bausch Health. This is a trend that we do not foresee slowing down in 2025.

2. **Economic divergence: Europe versus the US**
   Entering 2024, the debate across markets was whether the US economy would be able to achieve a soft landing. What transpired was a US economy that continues to grow at a healthy rate, has a grip on inflation, and a labour market that remains buoyant. This is in stark contrast to Europe, where most of the major economies are on the edge of recession, large companies are cutting staff, political turmoil abounds in France and Germany, and there is a continuation of conflicts on the borders of Europe, in Ukraine, and the Middle East. As a result, we have seen a stark divergence in the business cycle between the US and the Eurozone (Chart 1), with 2025 GDP growth expectations continuing to weaken and indicating lacklustre growth for the European region.

3. **Capital market activity: repricing and 'amend-and-extend' transactions**
   The capital market in Europe has been largely influenced by repricing efforts and amend-and-extend transactions (Chart 2). However, for the most leveraged and distressed issuers, these transactions have often required sponsor support to achieve a sustainable balance sheet. In some instances, equity owners have relinquished control to address financial challenges.

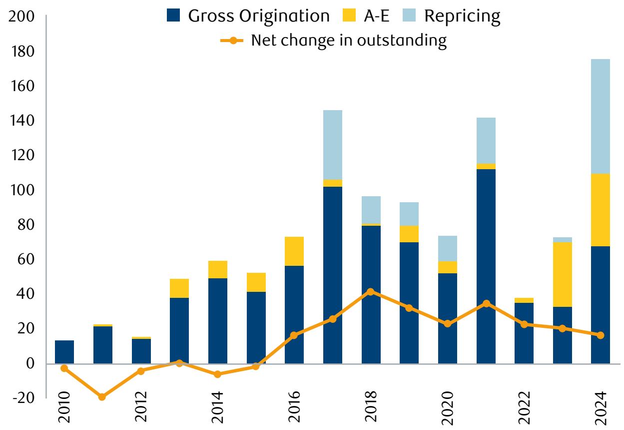
> **"The capital market in Europe has been largely influenced by repricing efforts and amend-and-extend transactions."**

Chart 1: Bloomberg 2025 GDP consensus forecasts



Source: Bloomberg, as at December 2024.

Chart 2: European leveraged loan capital market activity



Source: JPMorgan, Pitchbook LCD, as at November 2024. A-E data not available prior to 2017.

Outlook for 2025

We enter 2025 with huge question marks over the health of developed Europe, and we anticipate this to be a great source of opportunity for Special Situations investors. Late 2024 saw a flurry of company announcements coming out of the economic powerhouse, Germany, where major employers such as Volkswagen, Bosch, Thyssenkrupp, and Siemens seek to lay off thousands of workers in a bid to combat falling profits. German industrial production figures released in December dashed any hopes that the economy may slowly be turning a corner, with output decreasing 1% from the prior month versus an anticipated 1% increase, in addition to manufacturing PMIs showing no sign of recovery (Chart 3).

Additionally, there are political concerns across the European major economies. The UK is currently battling with a Labour government, which has caused a collapse in business and consumer confidence. At the time of writing, UK long-term borrowing has hit levels above those seen in 2023, following Liz Truss' government's mini-budget. In Germany, citizens will be heading to the voting box after the collapse of the coalition government, following a no-confidence vote in Chancellor Olaf Scholz. Finally, France is entering another turbulent year as a result of a snap elections in the latter part of 2024, which has left the country without a solid parliamentary majority. The result of this political instability is likely to be less investment, tighter lending standards, and higher interest costs.

Chart 3: German manufacturing PMIs

Source: Bloomberg, as at December 2024.

Further afield, the potential impact of US tariffs on European markets remains a concern, particularly for sectors with significant exposure to the US. Geopolitical tensions, such as those in the Middle East and Ukraine, continue to contribute to sustained high energy prices, which has an effect on most companies by reducing margins and decreasing profitability.

"The result of this political instability is likely to be less investment, tighter lending standards, and higher interest costs."

The middle market, where our focus lies, is particularly vulnerable due to its lower resilience, lack of diversification, and a reliance on bank funding.

We believe that the sectors to watch in 2025 will be:

- **BPO:** business process outsourcing (i.e. customer service) companies have seen valuations drop due to fears of AI disruption. However, the transition to AI solutions is expected to be gradual, and this has created a number of investment opportunities over the past six months.
- **Autoparts:** autoparts companies are struggling generally due to lower vehicle volumes, plant shutdowns by large OEMs, increased competition from China, and the transition from internal combustion engines to electric vehicles. As a result, numerous companies are undergoing restructurings to right size their balance sheets.
- **Utilities:** in the UK, the water sector faces challenges due to very high leverage, political sensitivity around utility bills, and regulatory complexities. 2024 was dominated by headlines surrounding Thames Water, and we expect to see additional opportunities in 2025.
- **Energy & Shipping:** both sectors underperformed during 2024, on the back of lower oil prices and macro concerns. The energy sector and specific companies within the space may well benefit from delivery of improving profit and cash generation. In the shipping industry, companies could gain from tailwinds brought on by new international policies, which have blacklisted a larger proportion of the global shipping fleet.

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Published January 2025

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RBC BlueBay
Asset Management

TradeBacked

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REVOLUTIONIZING ASSETBACKED FINANCING FOR SMES

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HOW INVENTORY-BACKED FINANCING IS BRIDGING THE $5.2 TRILLION CREDIT GAP PERFORMANCE

Small and Medium Enterprises (SMEs) form the backbone of global economies, contributing significantly to employment, innovation, and GDP. However, access to financing remains a persistent challenge, limiting growth potential. This whitepaper explores the SME funding industry, emphasizing inventory-backed financing as a viable solution for bridging the liquidity gap.

The SME Funding Landscape SMEs often struggle to secure funding due to limited credit history, lack of collateral, and stringent lending criteria imposed by traditional banks. Funding options available to SMEs include:

- Bank Loans: Conventional financing with high eligibility barriers.
- Equity Financing: Venture capital and angel investment, often dilutive.
- Invoice Financing: Short-term funding based on unpaid invoices.
- Crowdfunding & Peer-to-Peer Lending: Alternative digital platforms offering access to investors.
- Inventory-Backed Financing: A structured lending approach using inventory as collateral.

MARKET RESEARCH

Market Research on SME Funding According to the World Bank, SMEs represent about 90% of businesses and more than 50% of employment worldwide. Despite their economic significance, SMEs face an estimated $5.2 trillion credit gap globally, which is nearly 1.4 times the current level of SME lending. Emerging markets alone account for a funding shortfall of around $4.5 trillion, indicating the scale of unmet demand for financing.

The SME funding market has witnessed significant growth due to technological advancements, regulatory support, and alternative lending models. Digital financing solutions, such as inventory-backed financing, invoice factoring, and fintech-based lending platforms, have fuelled an expansion in SME lending, projected to grow at a CAGR of 8-10% over the next decade.

A study by McKinsey highlights that SMEs with access to structured financing solutions experience higher growth rates and increased operational stability compared to those relying on traditional lending models. The research underscores the importance of alternative funding mechanisms, including inventory-backed financing, in reducing the global SME credit gap.

The Role of SME Funding in the Current and Future Market Landscape

- Economic Growth: SME financing enables business expansion, innovation, and job creation, contributing to overall GDP growth.
- Financial Inclusion: Alternative financing solutions help bridge the gap for underbanked and underserved businesses.
- Technology-Driven Lending: AI, blockchain, and big data analytics enhance risk assessment and streamline funding processes, improving accessibility and efficiency.
- Sustainability and Resilience: SMEs play a crucial role in supply chains, and improved funding access ensures business continuity and resilience in economic downturns.

UNDERSTANDING INVENTORY-BACKED FINANCING:

Inventory-backed financing provides a mechanism for SMEs to utilize their inventory as collateral in order to secure essential working capital.

This financing model is especially well-suited to businesses characterized by high inventory turnover, such as those operating in the retail, manufacturing, and wholesale sectors.

From the perspective of lenders and investors, the tangible nature of the collateral, coupled with the possibility of insuring both the assets and the related contracts, enhances the security of the investment. Lenders and investors often find inventory-backed financing an attractive option due to its inherent security.

MECHANISMS OF INVENTORY-BACKED FINANCING

The process typically involves:

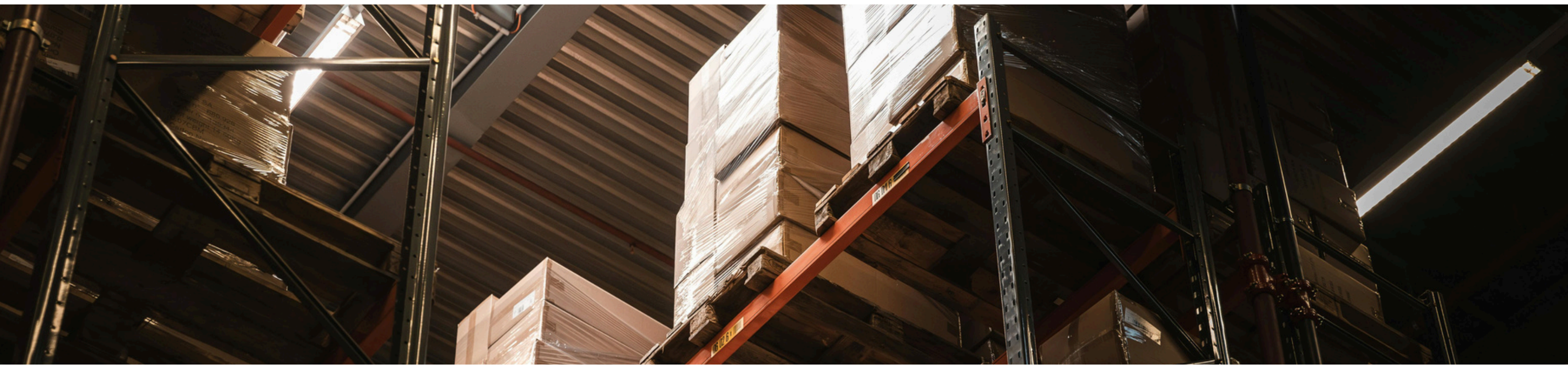
1. Inventory Valuation: Assessing the value of available stock.
2. Loan Disbursement: A percentage of the inventory value is advanced.
3. Repayment Structure: Scheduled payments with interest, usually aligned with inventory turnover.
4. Risk Management: Continuous inventory audits and market risk analysis.

BENEFITS OF INVENTORY-BACKED FINANCING

- Improved Liquidity: SMEs can unlock cash flow without selling assets.
- Flexible Repayment Terms: Financing structures tailored to business cycles.
- Non-Dilutive Capital: Unlike equity financing, business ownership remains intact.
- Scalability: The financing grows with increasing inventory levels.

CHALLENGES AND RISK CONSIDERATIONS:

- Valuation Volatility: Changing market conditions can impact inventory value.
- Storage and Security Risks: Need for proper storage and risk mitigation measures.
- Liquidation Risks: If an SME defaults, lenders may struggle to sell inventory at market value.



THE SHORTCOMINGS MENTIONED ABOVE CAN BE ADDRESSED BY

- identifying an LTV below the average volatility of the inventory in question,
- collaborating with reputable or bonded warehousing partners and
- managing an inventory asset class with high liquidity

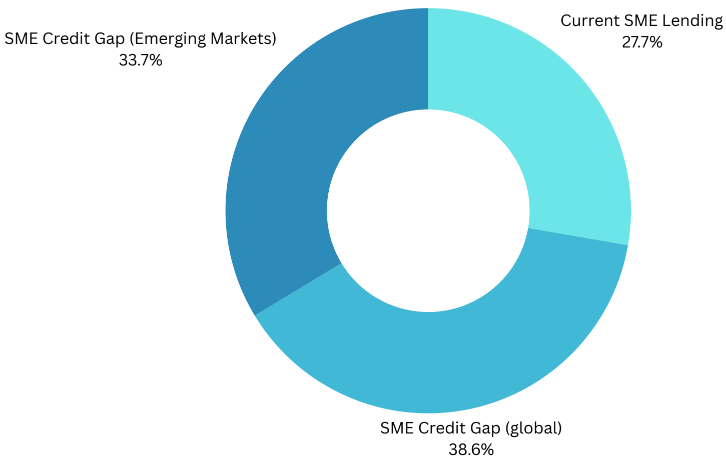
THE ROLE OF TECHNOLOGY IN ENHANCING INVENTORY FINANCING ADVANCEMENTS IN FINTECH HAVE SIGNIFICANTLY IMPROVED INVENTORY-BACKED LENDING BY:

- Blockchain and Smart Contracts: Enhancing transparency and reducing fraud.
- AI-Based Valuation Models: Providing accurate real-time inventory assessments.
- Supply Chain Integration: Linking financing to real-time inventory tracking for risk mitigation.

FUTURE OUTLOOK

The Future of SME Funding with Inventory Financing Inventory-backed financing is gaining traction as an alternative funding solution, particularly with the rise of digital lending platforms and fintech innovations. To enhance accessibility, regulatory frameworks must evolve to support
flexible, technology-driven solutions that facilitate SME growth.

Inventory-backed financing presents a sustainable solution for SME funding challenges, offering a balance between liquidity and risk management. With increasing adoption of fintech solutions, this financing model has the potential to bridge the credit gap and empower SMEs to scale efficiently.



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Aditya has 15 years of experience in international trade finance. He has raised and monitored $600 million in trade finance and working capital for SMEs. He has done an MS in Finance from ICFAI, Hyderabad, IN. As a Managing Partner at TradeBacked, he aims to solve all problems faced by SMEs in emerging markets, starting with trade finance.

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Financial Controller

Ridhi
IR Manager

Brett Frum
Director of Sales

T. Rowe Price | OHA OAK HILL ADVISORS

Private Credit's Persistent Premium

From the Field | 1Q 2025

Eric Muller

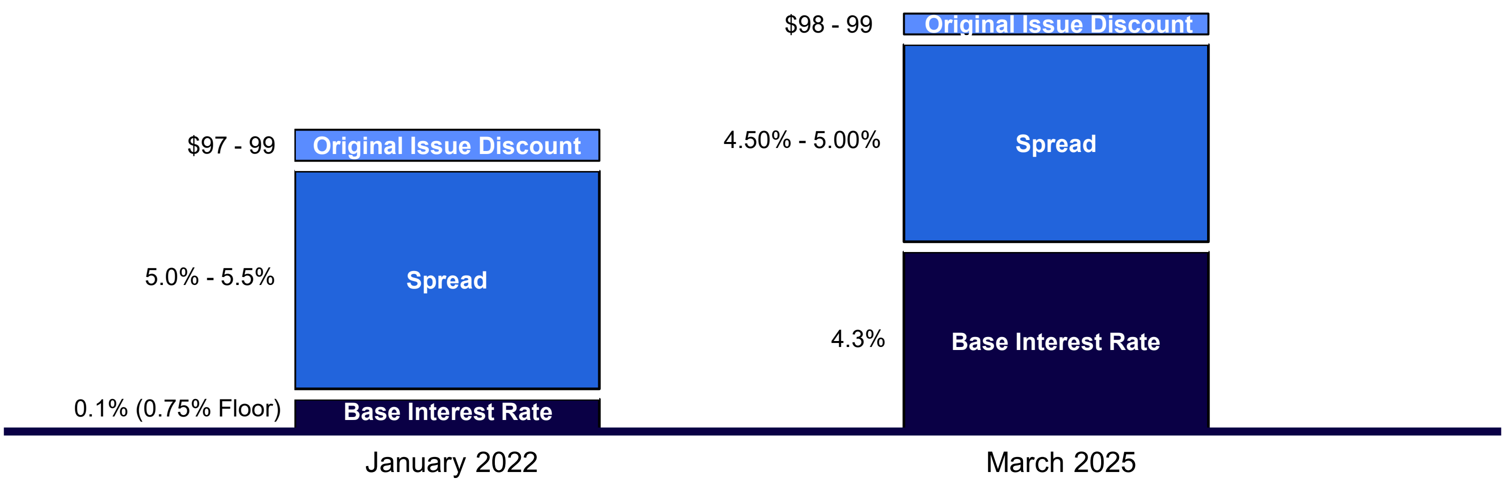
Portfolio Manager & Partner,
Chief Executive Officer – Business Development Companies

Summary

- Private credit historically offers a spread premium that persists through various base interest rate environments
- The private credit spread premium over liquid credit has ranged from 150 to 300 basis points (1.5-3%) over time
- This premium is composed principally of an "illiquidity premium" and "complexity premium"
- Private credit investors can capture the spread premium in exchange for committing capital longer term and providing lenders valuable execution and structural benefits

Private credit yields have three components—a floating base interest rate, coupon spread and original issue discount, as shown in the figure below. As a floating rate asset class, private credit yields move with the base interest rate, significantly reducing the volatility associated with longer term fixed income. In September, the Federal Reserve reduced its Fed Funds rate by 50 basis points to commence an expected monetary easing cycle after over two years of interest rate increases, the first such reduction in four years.[1] Given the potential for further declines in interest rates, OHA is frequently asked for its outlook on private credit returns in a falling interest rate environment.

Illustrative Unitranche Pricing[2]

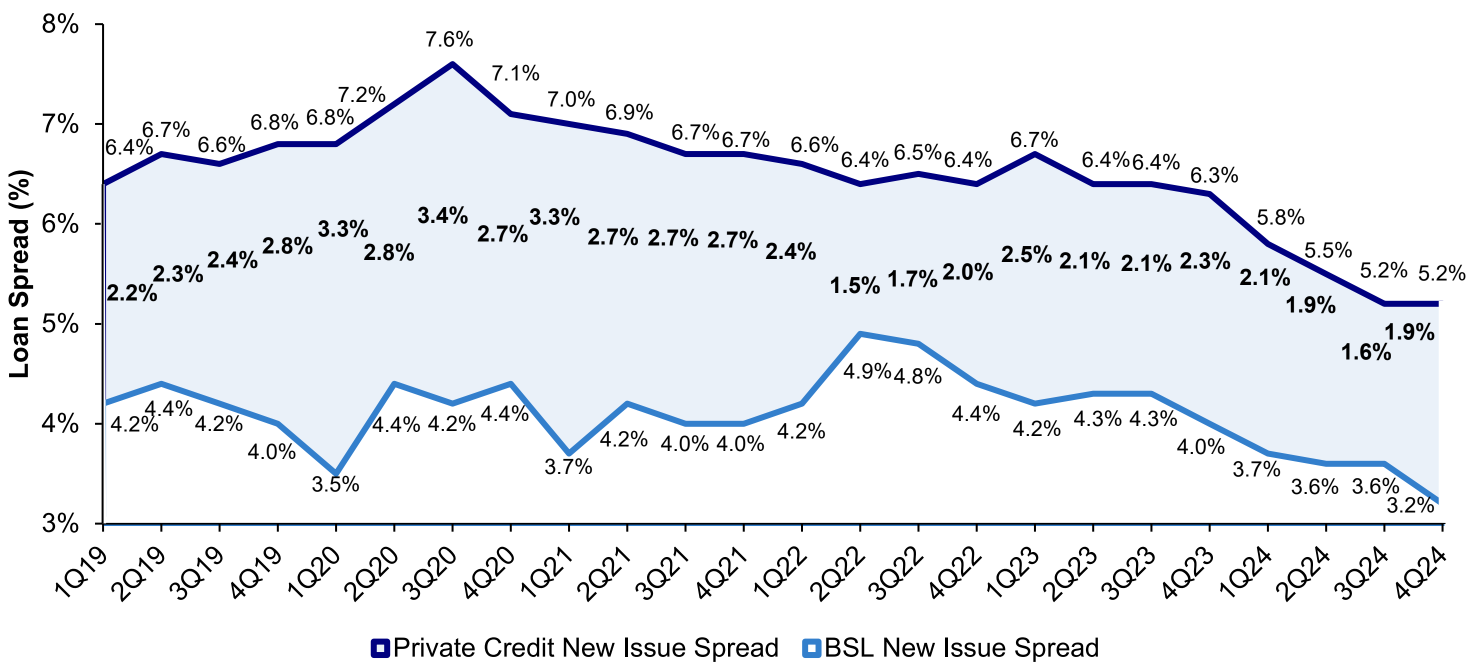


Does Private Credit Remain Attractive in a Falling Interest Rate Environment?

OHA believes that the attractiveness of private credit in a given rate or market environment should be assessed relative to other comparable asset classes. Private credit pricing is most commonly compared to broadly syndicated loans ("BSLs"), also known as bank loans or liquid loans, which like a typical private credit loan is floating rate and senior secured in the capital structure. Recent data illustrates how private credit has maintained a return premium, in the form of incremental spread, over liquid loans, irrespective of base interest rates. In the figure below, private credit new issue spreads were 1.5% to 3.4% greater than BSL new issue spreads since 2019.(1) During this time period, base interest rates ranged from 0.0% to 5.3%.(3)

New Loan Spreads – Private Credit vs. Broadly Syndicated Loans (BSLs)(4)

1Q 2019 – 4Q 2024



The private credit return premium is principally composed of two parts:

1) An "illiquidity premium" which compensates investors for locking up their capital for a longer period of time.

2) A "complexity premium" which results from the costs borrowers are willing to pay in connection with the many attributes private credit provides as discussed on the next page. These features are typically only available in the private market.

Taken together, the combination of these premia offer an attractive additional return to lenders while at the same time offering borrowers a compelling and feature rich financing alternative.

Why Do Borrowers Choose the Private Markets?

OHA believes private credit is a more customized financing solution for borrowers compared to traditional syndicated loans. Private credit has accounted for approximately 85% of leveraged buy-outs (LBOs) since 2022.[(5)] Some of the reasons why private credit has become a preferred form of financing include:

Execution Efficiency, Simplicity and Certainty: Private lenders can move with greater speed and can offer more certain pricing during time sensitive acquisition processes. Syndicated loan processes often have lengthy "road show" sales processes where banks market the loan to prospective buyers and may build in "flex" to increase pricing during the syndication process

Customization: Features and terms not typically available in the public market are made possible in private credit solutions. These include loans with delay draw features where private lenders can commit capital for future company growth

Consistent Access to Financing: Private markets have proven to be more reliable than traditional capital markets where traditional capital markets may close for business during periods of market turbulence, restricting a borrower's ability to access capital

Confidentiality: During the often competitive bidding process for an acquisition, there is less risk of transaction details becoming publicly available given the smaller number of financing parties in a private credit transaction

Ratings Independence: Private loans typically do not require a public rating from a rating agency and therefore may have greater ability to digest complex transactions. In contrast, syndicated loans are often ratings sensitive and may face difficulty in refinancing in the case of a ratings downgrade

Direct Partnership with Lenders: Borrowers are incentivized to build long-term, direct relationships with their smaller lender group, reducing the likelihood of activist investors entering the capital structure and lowering mark-to-market[6] volatility of borrower valuations

Streamlined Lender Coordination: Private lending streamlines operational processes such as ongoing diligence demands and potential future amendments, refinancings, or upsizes to the existing capital structure

Conclusion

OHA believes the benefits of private credit justify a premium price compared to syndicated loans. At the same time, syndicated loans remain the financing source of choice for borrowers seeking lower cost of capital for less complex financing needs, such as refinancings. OHA believes this dynamic reinforces the long-term coexistence of private credit and syndicated loans.

Given the premium afforded by private credit and its durable attractive relative value proposition, OHA believes private credit will remain a compelling borrower and investor solution in a falling rate environment or if interest rate moves prove more volatile as monetary policy adjusts over time.

Appendix and Endnotes

1) The federal funds rate is the target interest rate range set by the Federal Open Market Committee. It is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.
2) Source: OHA analysis as of March 31, 2025. Illustrative unitranche pricing representative of market pricing. “Base Interest Rates” represents the three-month Secured Overnight Financing Rate (“SOFR”) as of March 31, 2025. Estimated spread and original issue discount has been prepared by OHA to reflect pricing of actual unitranche investments made as of the beginning of 2022 versus the current market. Original Issue Discount is the discount price from a bond’s face value at the time a bond or other debt instrument is first issued.
3) Source: Bloomberg as of March 31, 2025. Base interest rates represented by the Secured Overnight Finance Rate (SOFR).
4) Source: PitchBook LCD, Company data, Goldman Sachs Investment Research as of December 31, 2024. Private credit new issue spreads represented by business development company (BDC) new issue spreads. Includes: OBDC, ARCC, BXSL, MFIC, TSLX, GBDC, ASIF, BCRED, OCIC, OTIC, OBDC II, OTF, OTF II. Broadly syndicated loan new issue spreads represented by PitchBook LCD new issue data.
5) Source: PitchBook LCD as of December 31, 2024.
6) Mark-to-market refers to the process of valuing assets and liabilities at their current market price, rather than original cost or historical value.

Key Risks and Disclosures

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The endnotes appearing at the end of this document, if included, are an integral part of this document and should be read in their entirety.

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Wilshire

THE EVERGREEN ADVANTAGE

A Strategic Case for Perpetual Private Markets Allocation

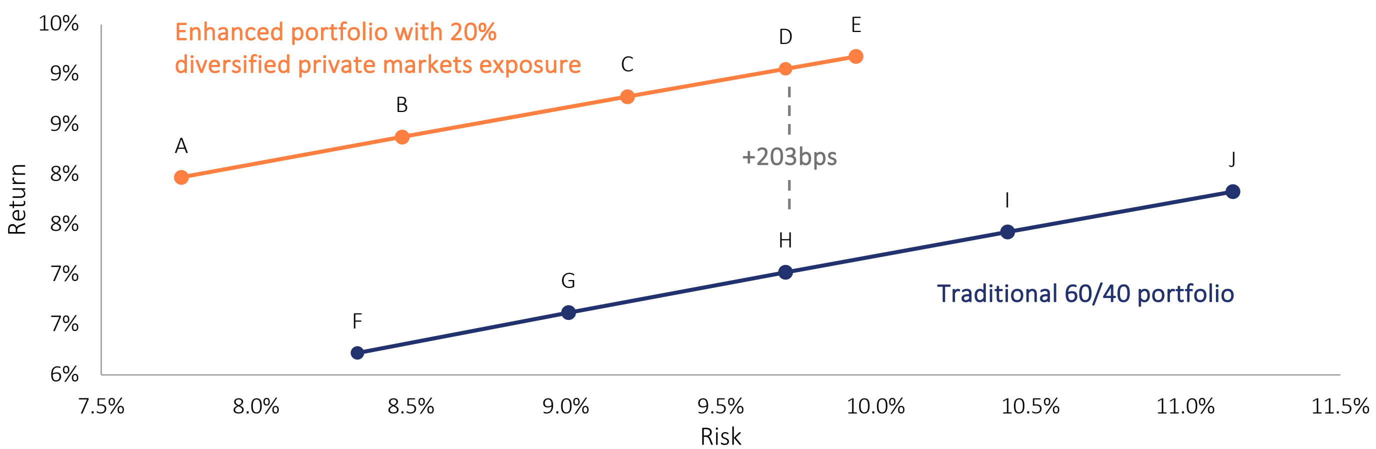
Executive Summary

The private markets industry stands at an inflection point. Traditional fund structures, while historically successful, increasingly constrain both investors and managers through artificial time limits, unpredictable cash flows, and operational complexity. Evergreen private markets funds represent a fundamental evolution in how sophisticated investors access alternative investments.

This structural innovation addresses longstanding challenges while preserving the core value creation mechanisms that make private markets attractive. For registered investment advisors managing substantial client assets, evergreen funds offer a pathway to consistent private markets exposure without the operational burden and cash flow unpredictability that have historically limited adoption.

Our analysis demonstrates that adding private markets to a traditional 60/40 portfolio may enhance risk-adjusted returns, all while simplifying portfolio construction and ongoing management when implemented in an evergreen structure. The case for integration into strategic asset allocation frameworks is strong. The efficient frontier represents the set of optimal portfolios that offer the highest expected return for a given level of risk. Adding private markets can shift the frontier up and to the left, enhancing diversification and offering the potential for higher returns per unit of risk in a balanced portfolio.

Illustrative Efficient Frontier



Source: Preqin, Wilshire. Risk and return data is based on quarterly time-weighted returns beginning December 31, 2008 and ending December 31, 2024. The "Traditional 60/40 portfolio" frontier represents an allocation to global equity (MSCI ACWI) and an allocation to core fixed income (Bloomberg US Aggregate Index). Node F represents a portfolio comprised of 45% global equities (GE) and 55% core fixed income (CFI); Node G: 50% GE and 50% CFI; Node H: 55% GE and 45% CFI: Node I: 60% GE and 40% CFI; Node J: 65% GE and 35% CFI.

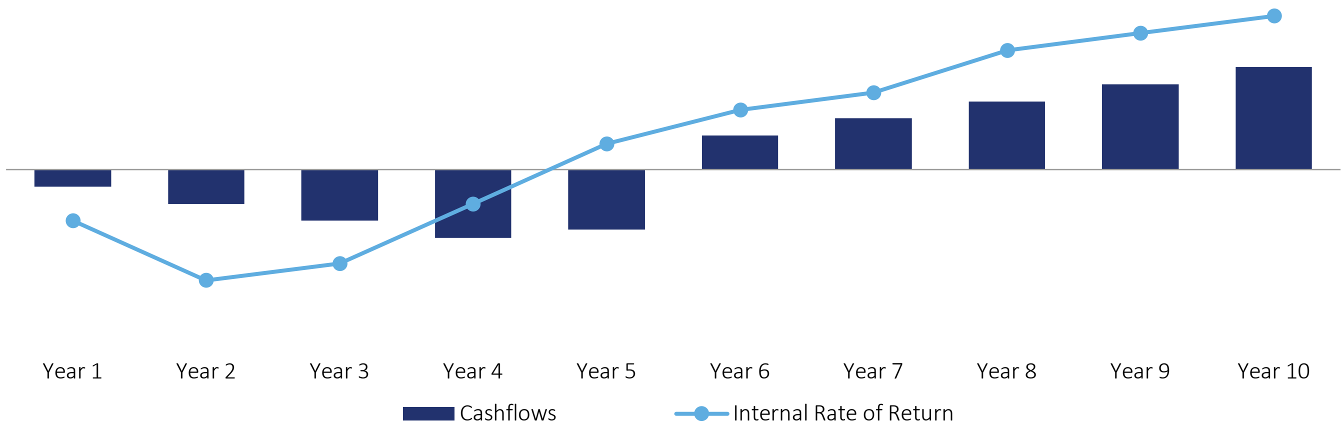
The "Enhanced portfolio with 20% diversified private markets exposure" frontier represents allocations to global equity (MSCI ACWI), core fixed income (Bloomberg US Aggregate Index), and 20% to private markets (consisting of median risk and returns from Preqin's Quarterly Index – 10% private equity, 5% private credit, and 5% private real assets). Node A represents a portfolio of 40% global equities (GE), 40% core fixed income (CFI), and 20% diversified private markets (DPM); Node B: 45% GE, 35% CFI, and 20% DPM; Node C: 50% GE, 30% CFI, and 20% DPM; Node D: 55% GE, 25% CFI, and 20% DPM; Node E: 55% GE, 25% CFI, and 20% DPM.

For illustrative and discussion purposes only.

The Structural Challenge

Traditional private markets investing follows a predictable but problematic pattern. Limited partnerships raise capital over 12-18 months, invest over 3-5 years, and harvest returns over the following 5-7 years. This structure creates several inefficiencies that compound over time.

The notorious J-curve effect means investors experience negative cash flows for years before seeing positive returns. During this period, committed capital earns minimal returns while investors wait for deployment. For advisors managing client portfolios, this creates a drag on overall performance that can persist for years.



Source: Wilshire Advisors. Actual internal rate of return and cash flows will differ for a private equity fund investment. For illustrative and discussion purposes only.

Perhaps more challenging is the unpredictability of capital calls. Traditional funds draw capital as investment opportunities arise, creating cash management challenges for advisors. Clients must maintain liquidity for potential calls while earning low returns on cash, or advisors must implement complex cash management strategies that add operational overhead.

The denominator effect further complicates portfolio management. As public markets fluctuate, private market allocations can drift significantly from targets. Rebalancing requires either reducing private market exposure (difficult given illiquidity) or making additional commitments (which may not deploy capital for years).

The Evergreen Solution

Evergreen funds fundamentally restructure the private markets investment experience. Rather than raising discrete pools of capital with predetermined lifespans, these vehicles operate as perpetual investment platforms. Capital is continuously deployed as opportunities arise, while mature investments are harvested and reinvested or distributed to investors.

This structure eliminates many traditional constraints. Investments can be held for their optimal duration rather than being forced into artificial sale timelines. Portfolio companies benefit from patient capital that supports long-term value creation rather than sale pressure driven by fund lifecycle requirements.

For investors, the benefits are immediate and tangible. Portfolio allocation targets can be reached quickly rather than over multiple years. Cash flow patterns become predictable, with regular distributions replacing volatile capital call and distribution cycles.

Investment Case Analysis

Risk-Adjusted Return Enhancement

The structural advantages of evergreen funds can translate into measurable performance benefits. By eliminating vintage year risk, these funds smooth returns across economic cycles. Traditional private equity investors often find their returns heavily influenced by the vintage year of their investments, with funds raised during market peaks typically underperforming those raised during downturns.

Evergreen funds mitigate this risk through continuous investment. Portfolio companies are acquired across market cycles, reducing the impact of any single vintage year. This diversification effect extends beyond timing to include industry sectors, geographic regions, and transaction types.

The reinvestment of proceeds within the fund structure creates a compounding advantage often lost in traditional structures. Rather than distributing proceeds to investors who may reinvest months or years later, evergreen funds can immediately redeploy capital into new opportunities. This continuous recycling of capital optimizes the compounding effect that drives long-term wealth creation.

Portfolio Construction Benefits

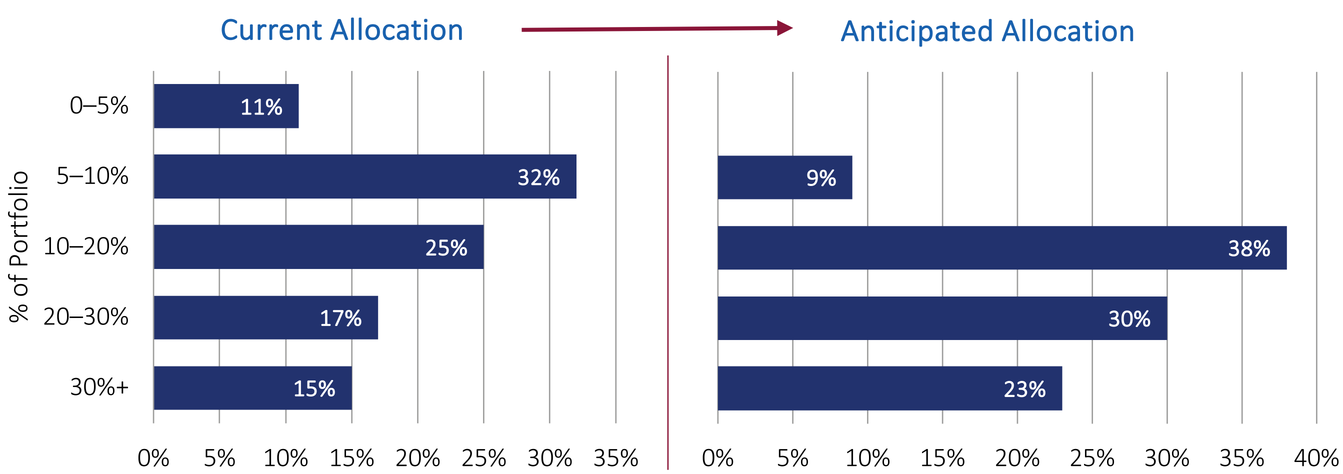
Traditional private markets allocation requires careful planning and patience. Advisors typically commit to multiple funds over several years to build diversified exposure, a process that can take half a decade to complete. During this accumulation period, actual private markets exposure remains well below target levels.

Evergreen funds collapse this timeline dramatically. Meaningful private markets exposure can be achieved within months rather than years. This rapid deployment is particularly valuable in today's environment, where private markets continue to outperform public alternatives.

The operational simplicity cannot be overstated. Rather than managing relationships with dozens of fund managers across multiple vintage years, advisors can achieve equivalent diversification through a handful of evergreen platforms. This concentration of relationships enhances negotiating power while reducing due diligence requirements.

RIA Firms' Evergreen Mindset

Managers of varying sizes are increasingly reassessing their portfolio construction to include more meaningful allocations to evergreen fund structures. While many have historically maintained modest exposures, there's a marked shift toward larger commitments on the horizon. This change reflects a growing recognition of the strategic advantages evergreen vehicles offer—such as flexibility, long-term alignment, and the ability to navigate market cycles without the pressure of fixed exit timelines. As confidence in the model strengthens, managers are positioning evergreen funds not as niche supplements, but as core components of their investment strategy. Recent allocation trends reveal a notable shift: while only 15% of managers currently allocate more than 30% of their portfolios to evergreen funds, that figure is expected to rise to 23%. Meanwhile, the percentage of managers allocating between 20–30% is projected to nearly double, from 17% to 30%. The share allocating under 10% is anticipated to drop sharply, signaling a clear movement away from minimal exposure toward more substantial, strategic positions in evergreen structures.

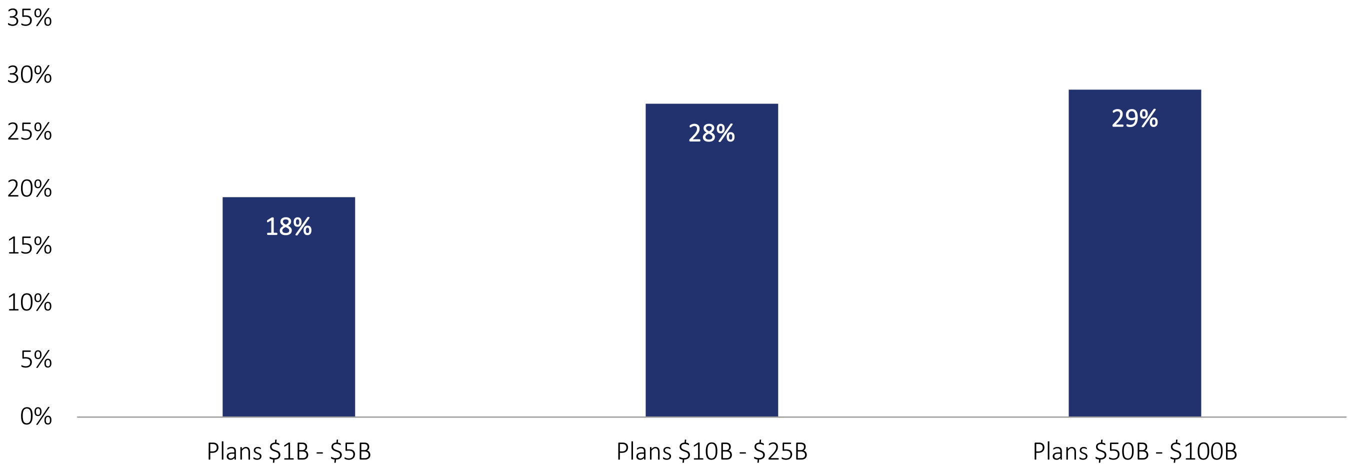


Source: 2nd Annual KKR RIA Forum Pre-Event Survey, October 2024; 50 respondents including Chief Investment Officers, Directors of Research, and key decision makers from leading Registered Investment Advisor firms across the United States. For illustrative and discussion purposes only.

Implementation Framework

Successful evergreen integration requires thoughtful planning and execution. Institutional investors have made meaningful allocations between 18-29% depending on plan size, client risk tolerance and return objectives to private markets. This allocation should be diversified across private equity, credit, real assets, and infrastructure to capture the full spectrum of private markets opportunities.

Mean Institutional Allocation to Private Markets



Source: Wilshire TUCS data for all plans as of 12/31/2024. For illustrative and discussion purposes only.

Manager selection becomes even more critical in evergreen structures. Emphasis should be placed on institutional platforms with demonstrated operational excellence, strong governance frameworks, and alignment with advisor values.

Geographic diversification through global platforms offers additional benefits. Rather than assembling regional specialists, advisors can achieve worldwide exposure through carefully selected global evergreen funds. This approach simplifies implementation while ensuring comprehensive market coverage.

Key Implementation Considerations

Due diligence should focus heavily on operational capabilities and fee structures. Evergreen funds must balance liquidity provisions with long-term investment horizons, requiring sophisticated capital management capabilities.

Fee alignment is crucial. Performance-based structures that prioritize absolute returns over asset gathering ensure manager interests align with investor outcomes.

Liquidity terms require careful evaluation. Evergreen funds typically rely on either periodic tender offers or repurchase mechanisms to provide liquidity to investors, in either case often limited to a small portion of the portfolio at any given time.

Market Evolution and Outlook

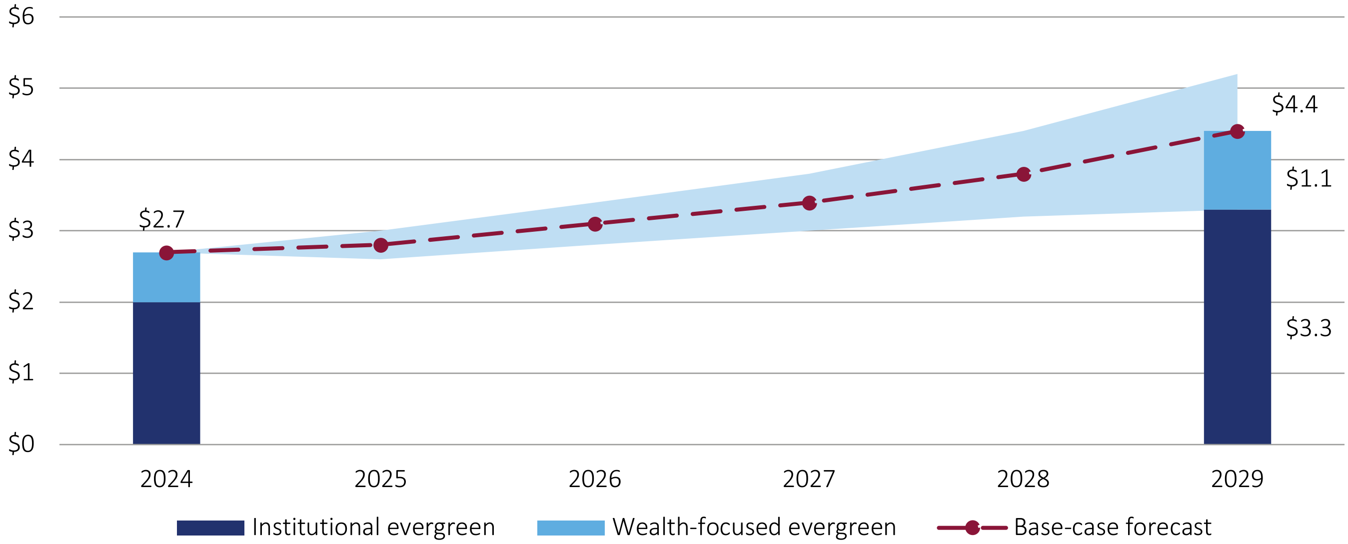
Institutional adoption of evergreen structures is expected to accelerate as their benefits become apparent. Recent estimates indicate that evergreen funds currently account for 5% of the private market assets under management, and that share is projected to grow to 20% over the next 10 years[1]. The projected adoption rate of evergreen funds suggests a fundamental shift in how sophisticated investors approach private markets.

Assets under management in evergreen structures are projected to grow from $2.7 trillion in 2024 to $4.4 trillion by 2029. This growth reflects both new capital allocation and the conversion of traditional structures to evergreen formats. Pitchbook

[1] Hamilton Lane, "2025 Market Overview," 94 (https://www.hamiltonlane.com/getmedia/5f672dcb-f2e6-4812-929e-fac717402cee/2025-market-overview_narrative.pdf).

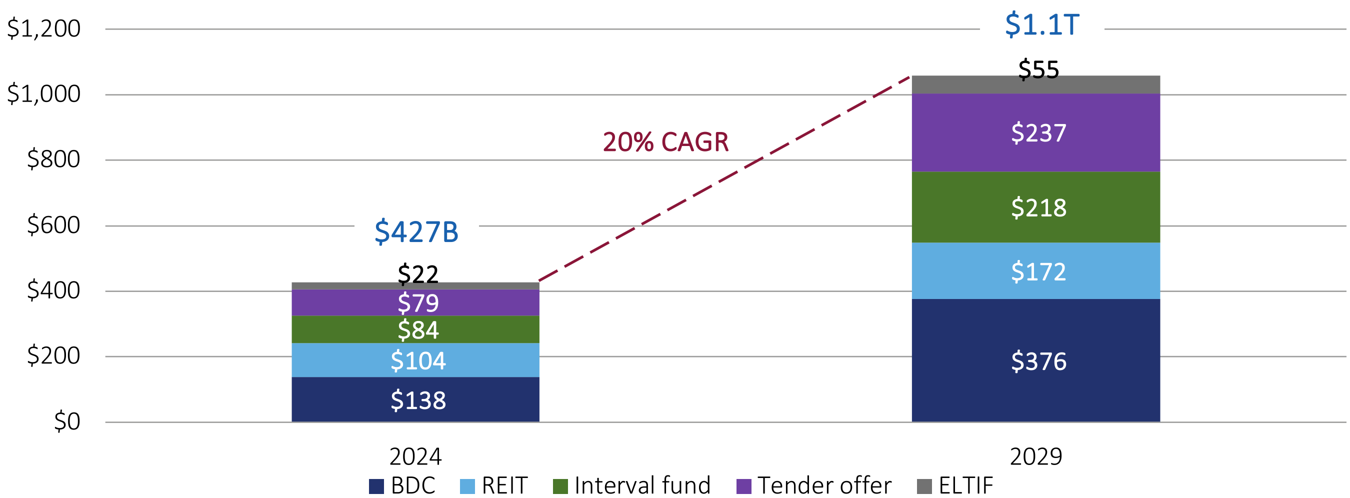
expects tender offer and interval funds, the two main evergreen structures built for the wealth channel, to more than double in the same period.

Evergreen Fund AUM Forecast ($T)



Source: PitchBook. Geography represented: Global. "Institutional evergreen" includes insurance AUM from Blackstone, KKR, Blue Owl Capital, The Carlyle Group, Ares Management, Apollo Global Management, and Brookfield. Forecasts were generated on April 14, 2025. For illustrative and discussion purposes only.

Base-case Wealth-focused evergreen fund AUM forecast ($B) by Structure



Source: PitchBook. Geography represented: United States and Europe. Forecasts were generated on April 14, 2025. For illustrative and discussion purposes only.

Additionally, SEC support may provide additional tailwinds for evergreen funds. At SEC Speaks on May 19, 2025, Chairman Atkins remarked that the SEC would reconsider the 23-year-old practice of limiting closed-end funds investing 15% or more of their assets into private funds to accredited investors and with a $25,000 minimum initial investment threshold. This position has historically limited retail investors' opportunity to invest in quality private markets funds held in the retail friendly wrapper of an evergreen fund. In the weeks following the announcement, multiple evergreen fund managers have removed the accredited investor requirements for their funds and reconsidered investment minimums. These actions will allow greater access to these evergreen funds by retail investors, and tailwinds for evergreen funds holding private market funds.

Conclusion

The private markets industry continues to evolve, and evergreen structures represent the next phase of this evolution. They solve longstanding problems that have limited private markets adoption while preserving the fundamental value creation mechanisms that make these investments attractive.

For sophisticated RIA firms, evergreen funds may offer a pathway to enhanced returns, greater operational efficiency, and improved client satisfaction, although outcomes will vary and cannot be guaranteed. The structural advantages are compelling, the implementation process continues to be streamlined, and the current market momentum continues to grow.

The question facing advisors today should not be whether to consider evergreen allocation, but how quickly they can implement it effectively. We believe those who act decisively in pursuing an evergreen allocation will be in the best position for their firms and clients in an increasingly competitive environment.

We believe the evergreen advantage is real, measurable, and available today. The time for consideration has passed; the time for action has arrived.

Important Information

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XA INVESTMENTS

XA Investments Non-Listed CEF Q1 2025 Trends Report

For Additional Research, Contact XA Investments:
info@xainvestments.com | (888) 903-3358

Notes: Non-listed Closed-end Funds ("CEFs") include all interval and tender offer funds. The non-listed CEF market is subject to lags in reporting and limited data availability. Data such as asset levels, net flows, and performance are delayed up to 90 days after quarter-end and are not available for all funds. All data in the report is the most current available. Please contact our team if you have any questions about the non-listed CEF marketplace. We would be happy to share information and insights. Please notify us with any errors or changes.

March 31, 2025

XA Investments Finds Strong Start to 2025 in Fund Launches and Asset Gathering Among Non-Listed Closed End Funds in its First Quarter 2025 Market Update

CHICAGO, April 23, 2025 – XA Investments LLC ("XAI"), an alternative investment management and consulting firm, announced today that its **Non-Listed Closed-End Funds First Quarter 2025 Market Update** shows a strong start to 2025 in both fund launches and asset gathering. The market update is a comprehensive research report detailing current market trends and industry highlights. The non-listed closed-end fund (CEF) market includes all interval and tender offer funds. The report introduces the XAI Interval Fund Index™ (INTVL), analyzes recent developments in co-investment relief, and reviews 2024 net flows across the market.

"The non-listed CEF market continues to grow after a record year in 2024, with many sponsors launching a second fund and new sponsors entering the market" stated Kimberly Flynn, the president of XAI. "Such robust growth is great for the interval / tender offer fund market. We believe the market's trajectory will remain positive, with significant opportunities for expansion throughout the rest of the year," she added.

XAI recently launched their XAI Interval Fund Index™ (INTVL), a total return index that tracks the interval fund market, helping to address the lack of easily accessible information on the market. "The XAI Interval Fund Index gives asset managers and financial advisors an unprecedented level of clarity in a market that has been notoriously difficult to track," Flynn noted. "The first index tracking the interval and tender offer fund market, INTVL serves as the sole barometer for the market, giving investors a snapshot of how interval funds as a whole are performing," Flynn added.

The non-listed CEF market reached a new peak with 270 interval and tender offer funds with a total of $181 billion in net assets and $220 billion in total managed assets, inclusive of leverage, as of March 31, 2025. The market includes 134 interval funds which comprise 50% of the total managed assets at $132.1 billion and 136 tender offer funds which comprise the other 50% with $88.3 billion in total managed assets. This is a significant change from previous quarters, as the number of interval funds has caught up to the total number of tender funds. In Q1 2025, 14 new funds entered the market, representing an increase of four funds compared to the 10 funds launched in Q1 2024. Market-wide net assets increased $9 billion in Q1 2025 from the prior quarter.

In total, there are 143 unique fund sponsors in the interval and tender offer fund space, with 50 fund sponsors that have two or more interval and/or tender offer funds currently in the market. Additionally, there are 27 funds currently in the Securities and Exchange Commission registration process from fund sponsors looking to launch another fund. Notably, the top 20 funds decreased their market share from 65% Q4 2024, to 60% in Q1 2025, displaying the growth of new funds in the market. Among the new funds launched in Q1 2025, there were three new interval fund sponsors, HarbourVest, Gemcorp and Pop Venture Advisers.

In this quarterly report, XAI covers the 2024-year end net flows which are lagged by reporting cycles. In 2024 funds had positive net flows, totaling over $38 billion, with 67% of funds reporting positive net flows. The majority of net flows in 2024 (53%) went into daily NAV funds without suitability restrictions, while 26% went into funds limited to accredited investors, and 21% went into funds limited to qualified clients. In aggregate, the top 20 largest interval/tender offer funds experienced an increase in net flows year-over-year from 2023 to 2024 including many of the market leaders such as the Cliffwater Corporate Lending Fund, Partners Group Private Equity (Master Fund), LLC, and ACAP Strategic Fund. In addition, Private Credit funds continued to dominate capital raising in 2024, bringing in over $20 billion in net assets, with Venture / Private Equity funds coming in second, bringing in over $11 billion in net assets.

"The non-listed CEF market continues to grow with a total of 58 funds in the SEC registration process at the end of the first quarter," said Flynn. "The SEC backlog increased by five funds from the end of 2024 to the end of Q1 2025. So far in 2025, there have been 23 new SEC filings, compared to 15 new filings from Q1 2024, representing a 53% increase in registrations. Newly launched non-listed CEFs spent around seven months in the SEC registration process, with the fund's asset class continuing to be the main driver of time spent in the SEC review process. Tax-Free Bond funds were the quickest to launch, at 160 days on average spent in registration," she added.

At 49%, the majority of interval and tender offer funds do not have any suitability restrictions for investors imposed at the fund level — 30% of funds are available to accredited investors and 21% are only available to qualified clients. Alternative funds without suitability restrictions also prove to be more accessible and have gathered more assets at $118.2 billion in managed assets or 54% of market-wide assets.

For more information on the interval fund market and to read our full quarterly report on non-listed CEFs, please visit the CEF Market research page linked here and click 'Subscribe' for access to XA Investments' online research portal and pricing information. In addition, please contact info@xainvestments.com or 888-903-3358 with questions.

Sources: XA Investments; CEFData.com; SEC Filings.
Note: All information as of 3/31/2025 unless otherwise noted. Total managed assets is inclusive of leverage. Net flows are reported in Form NPORT-P ("NPORTs"), which are filed quarterly with the SEC. NPORT filings are typically lagged 60 days from the end of the reporting period. The net flows data in this report is as of 12/31/2024 and represents the latest publicly available data.

By The Numbers: Interval / Tender Offer Marketplace

$181 Billion in Net Assets

270 Total Funds

56% of the Market 3 Year+ Track Record

1940 Act Non-listed Closed-end Funds

Market Expansion
51% of Funds in SEC Registration are New Entrants

134 Interval Funds
Represent 60% of Total Managed Assets

136 Tender Offer Funds
Represent 40% of Total Managed Assets

35 Total Funds on **Major** Wires

1.23% Average Management Fee[1]

143 **Unique** Sponsors

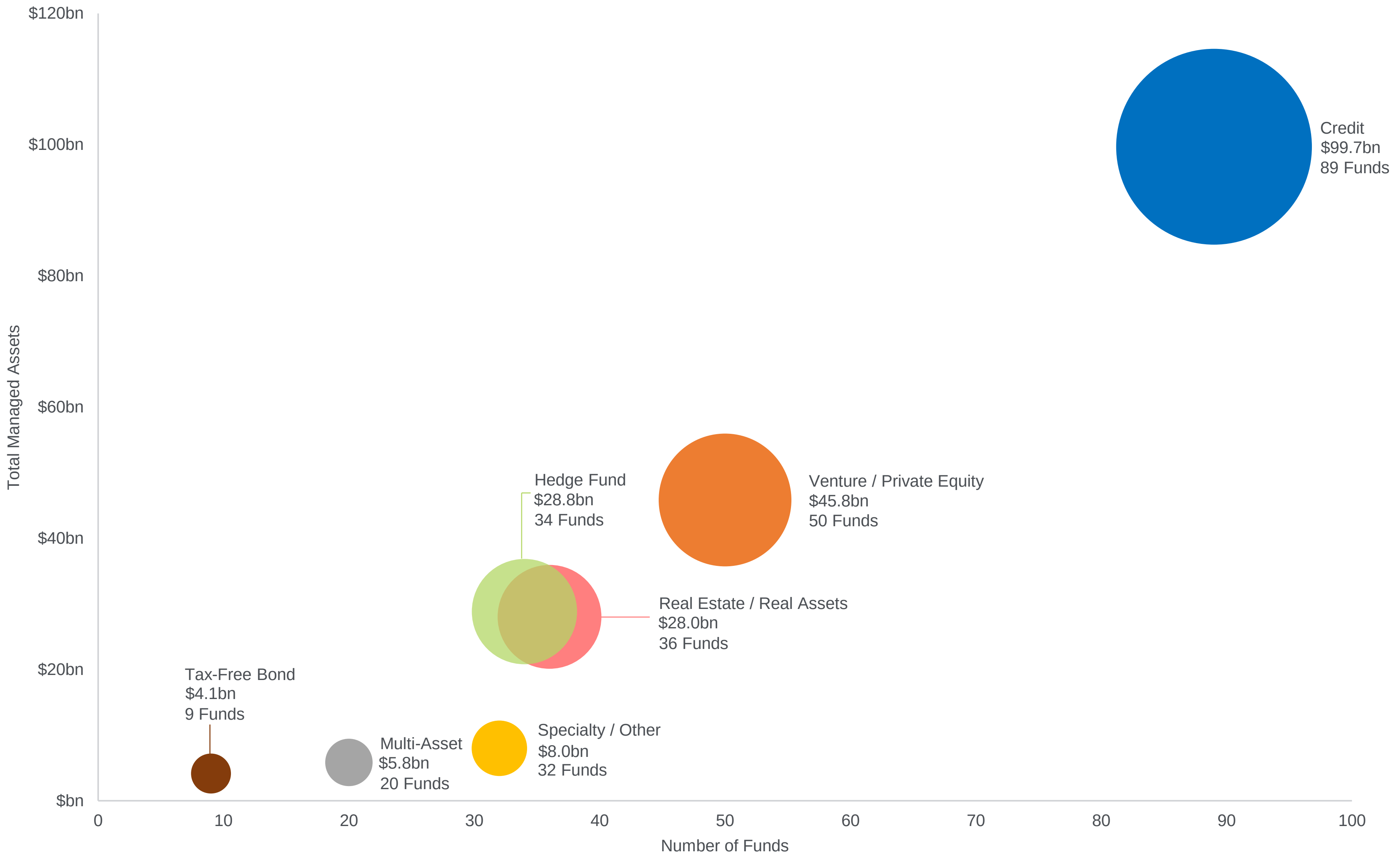
58 Funds in SEC Registration

14 Funds Launched in Q1 2025

Sources: XA Investments; CEFData.com; SEC Filings. Note data is as of 3/31/2025 or latest publicly available.
1. Does not include potential incentive fees which 24% of total funds charge in addition to base management fees.

Overview of Non-listed CEF Market by Asset Class

Non-listed CEF Market by Total Managed Assets and Number of Funds



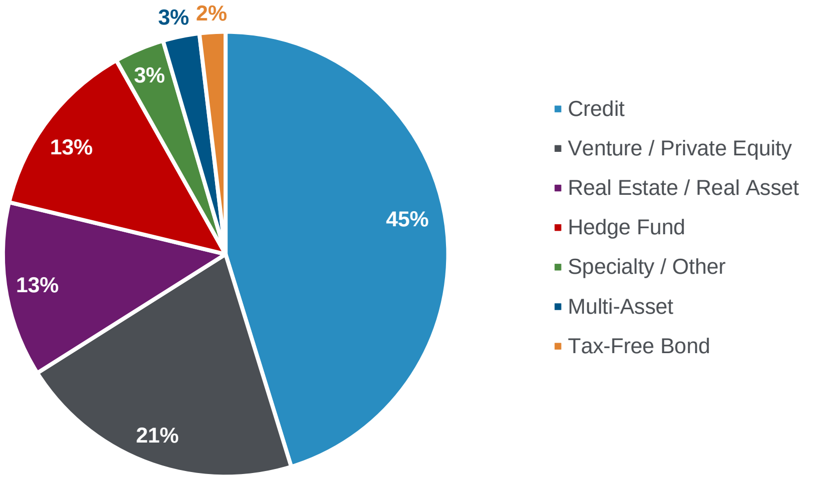
Sources: XA Investments; CEFData.com; SEC Filings.
Note: Data reflects most recent publicly available data as of 3/31/2025.

Historical Interval and Tender Offer Fund Market Overview

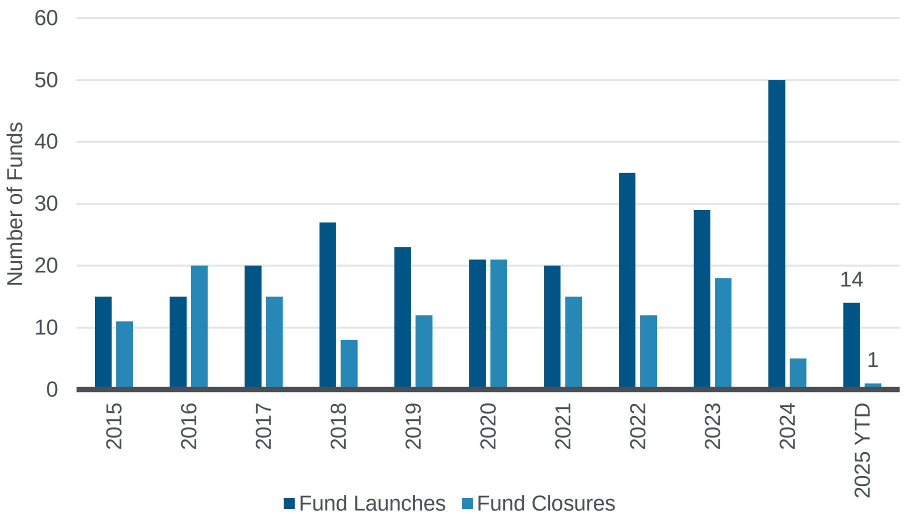
Interval and Tender Offer Funds by Asset Type

Asset Type	Funds	Total Managed Assets ($mm)[1]	Net Assets ($mm)
Credit	89	99,686	70,135
Venture / Private Equity	50	45,843	43,944
Real Estate / Real Asset	36	28,033	26,411
Hedge Fund	34	28,831	23,573
Specialty / Other	32	7,997	7,708
Multi-Asset	20	5,840	5,618
Tax-Free Bond	9	4,149	3,165
Total	**270**	**220,379**	**180,554**

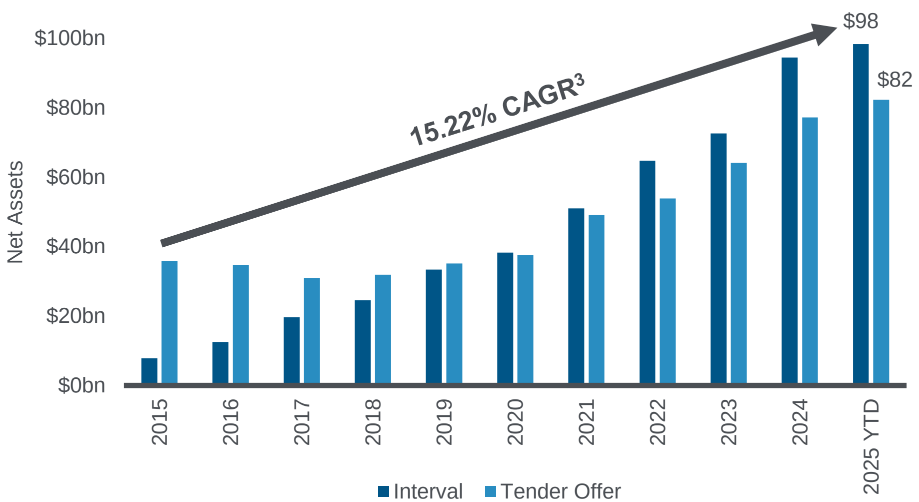
Asset Classes by Total Managed Assets[1]



Fund Launches and Closures[2]



10 Year Net Asset Growth

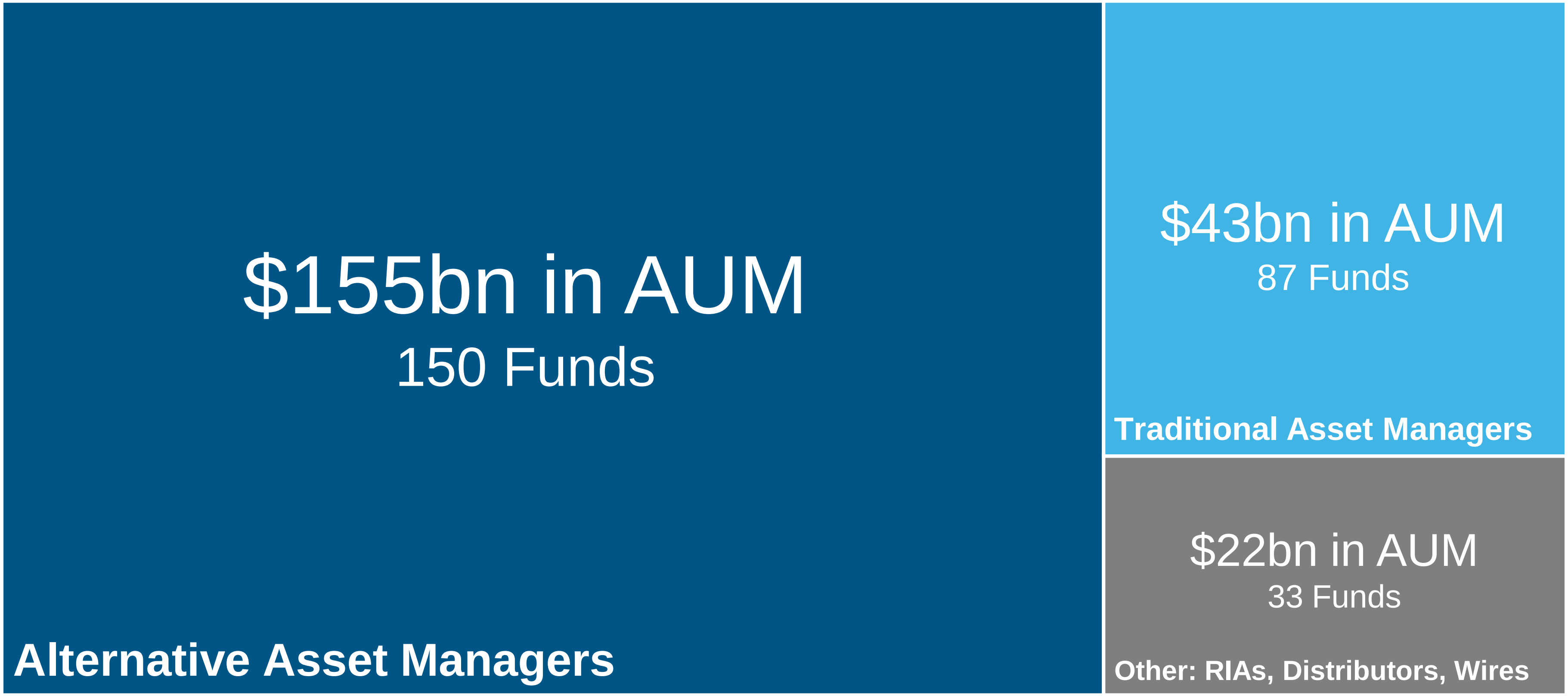


Sources: XA Investments; CEFData.com.
Notes: Data as of 3/31/2025 or latest publicly available.
1. Total managed assets is inclusive of leverage.
2. CPG Cooper Square International Equity, LLC closed in Q1 2025.
3. Represents the 10-year compound annual growth rate of net assets for interval and tender offer funds as of 3/31/2025.

70% of Non-listed CEF Assets are in Funds Managed by Alternative Asset Managers

Alternative asset managers dominate the market in AUM and number of funds compared to traditional asset managers and other specialty firms

Non-listed CEF Marketplace by Adviser Type

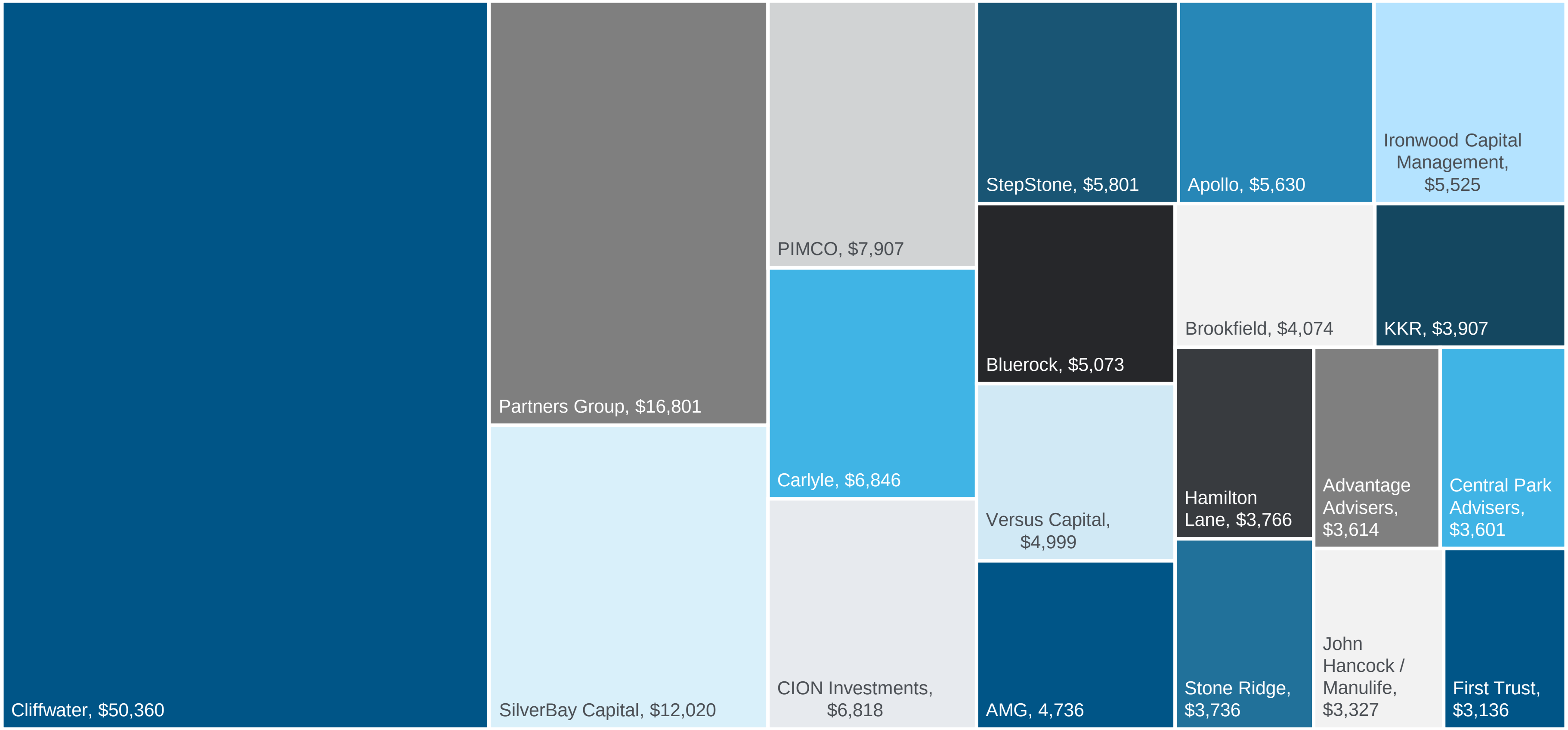


Adviser Type	AUM ($mm) (12/31/2024)	AUM ($mm) (3/31/2025)	AUM %Δ	% of AUM (3/31/2025)	Number of Funds (3/31/2025)	% of Funds (3/31/2025)
Alternative Asset Managers	145,803	155,220	6%	70.4%	150	55.6%
Traditional Asset Managers	20,914	22,437	7%	19.4%	87	32.2%
Other: RIAs, Distributors, Wires	40,827	42,722	5%	10.2%	33	12.2%
Total	**207,544**	**220,379**	**6%**	**100%**	**270**	**100%**

Sources: XA Investments; CEFData.com; SEC Filings. Data reflects most recent publicly available as of 3/31/2025. AUM represents total managed assets and is inclusive of leverage.

Leading Sponsors Double Down: 50 Fund Sponsors Have Two or More Funds

Top 20 Sponsors by Total Managed Assets ($mm)



	Unique Sponsors[1,2]	Total Funds[1,2]	Total Managed Assets ($bn)[1,2]
All Fund Sponsors	143	270	$220
Fund Sponsors with 2+ Interval or Tender Offer Funds	50	177	$175
Fund Sponsors with 2 Interval or Tender Offer Funds in the Top 20[3]	1	2	$48

Source: XA Investments; CEFData.com.
Notes: Data as of 3/31/2025 or latest publicly available.
1. Master feeder funds are included in calculations. However, when calculating assets under management, only master funds are included to avoid double counting.
2. Data represents active funds and does not include funds in SEC registration.
3. “Top 20” refers to the 20 largest funds in XAI’s records based on total managed assets.

By The Numbers: 2024 Net Flows[1]

$38.56 Billion in 2024 Net Flows

84% Increase In Net Flows Year-over-Year

67% of Funds had Positive Net Flows

2024 Net Flows

53% of Net Flows went to Funds Without Suitability Restrictions

95% $\frac{\textit{Net Flows for the Quarter}}{\textit{Average Net Assets for the Quarter}}$

of Funds had a Ratio of Net Flows to Average Net Assets Greater than -5%

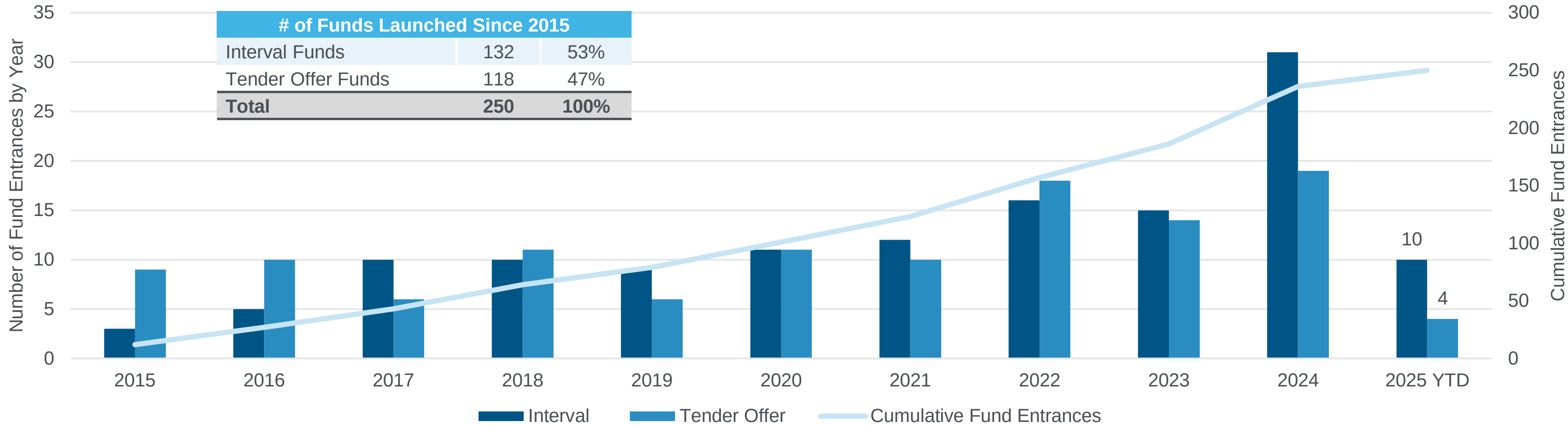
Over $20 Billion Raised by Credit Funds in 2024

Sources: XA Investments; CEFData.com. Flow data sourced from SEC filings.
Note: 1. Net flows are reported in Form NPORT-P ("NPORTs"), which are filed quarterly with the SEC. NPORT filings are typically lagged 60 days from the end of the reporting period. The net flows data in this section is as of 12/31/2024 and represents the latest publicly available data.

Growth in the Market Has Been Largely Driven by Credit Funds with 5 Launching in Q1 2025

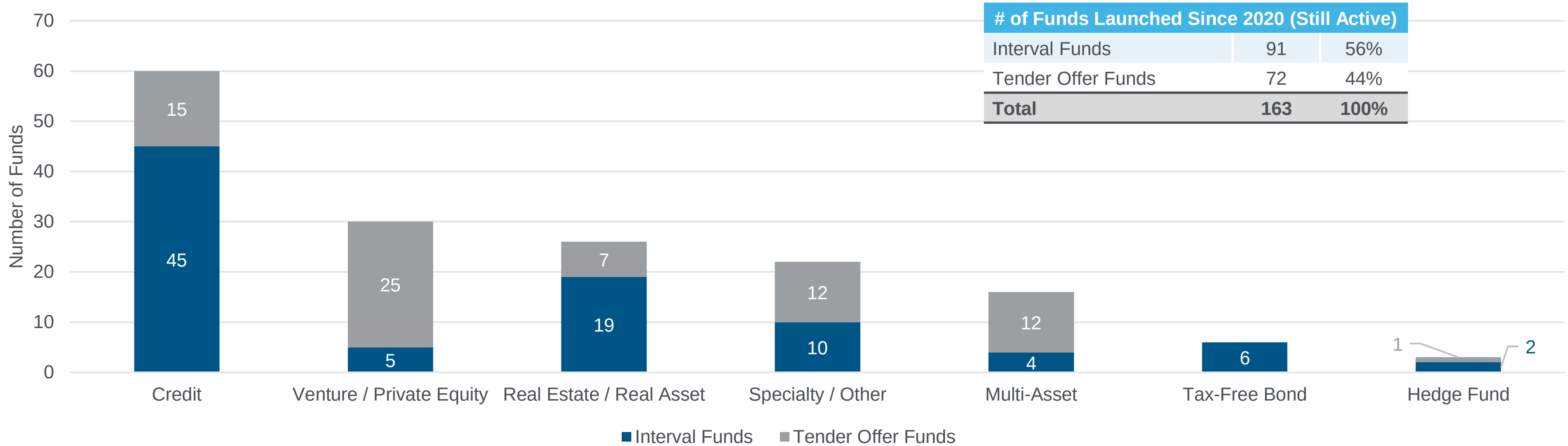
Interval vs. Tender Offer Funds: Market Entrants Launches by Fund Structure (Since 2015)

# of Funds Launched Since 2015		
Interval Funds	132	53%
Tender Offer Funds	118	47%
Total	**250**	**100%**



Non-listed CEFs[1] Launched Since 2020 (Still Active)

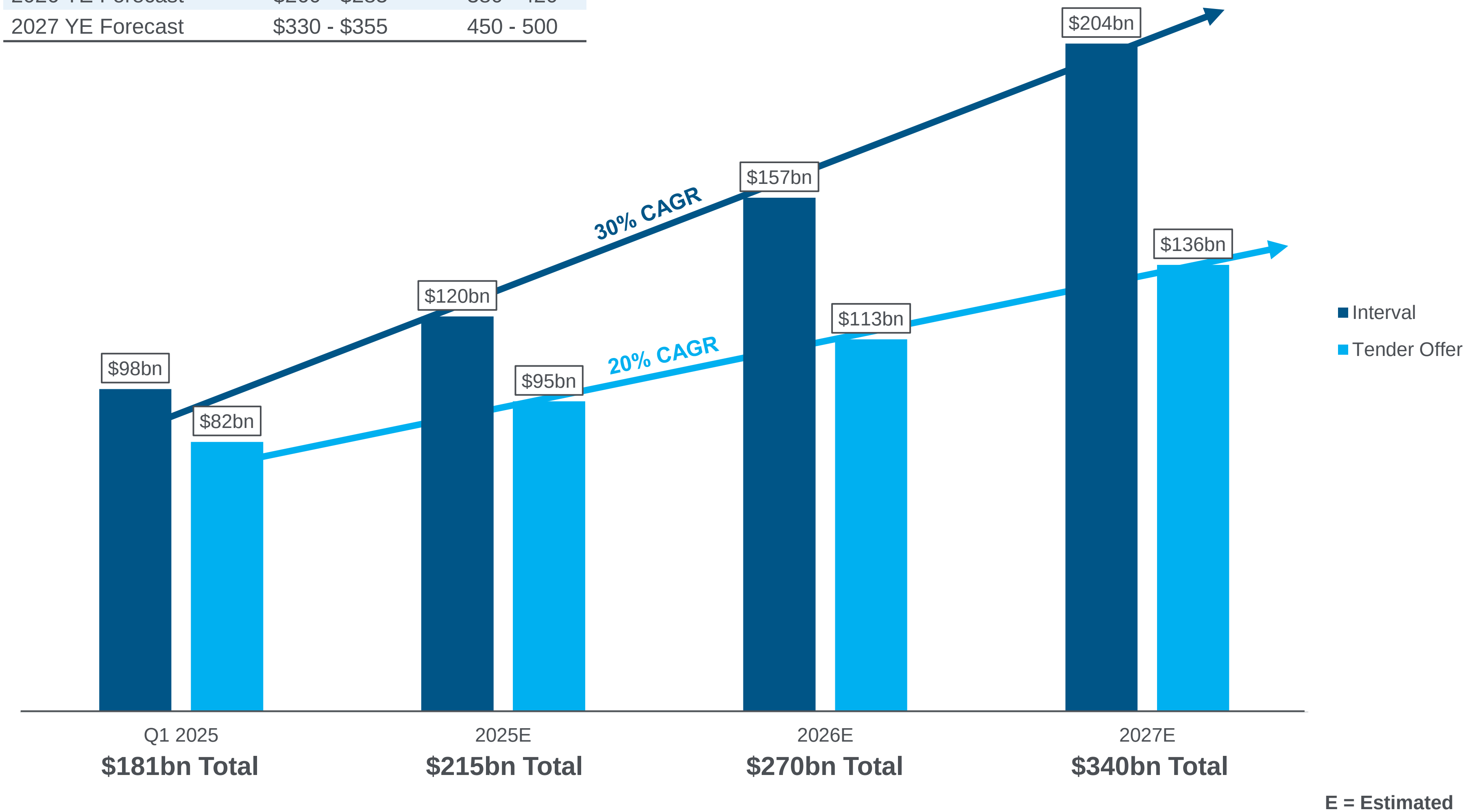
# of Funds Launched Since 2020 (Still Active)		
Interval Funds	91	56%
Tender Offer Funds	72	44%
Total	**163**	**100%**



Source: XA Investments; CEFData.com.
Notes: Data as of 3/31/2025 or latest publicly available. Detailed historical interval and tender offer fund data is limited back to 2015.
1. Active non-listed CEFs refer to interval and tender offer funds that are open and available for new sales in the market.

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

Period	Net Assets[1] ($bn)	# of Funds
Q1 2025	$181	270
2025 YE Forecast	$205 - $230	310 - 350
2026 YE Forecast	$260 - $285	380 - 420
2027 YE Forecast	$330 - $355	450 - 500



Source: XA Investments.
Note: XAI's forecast uses estimates 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. Q1 2025 actual figures are latest publicly available as of 3/31/2025.

Blue Vault 2025 Alternative Investments
Mid-Year Outlook and Select Sector Reports

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