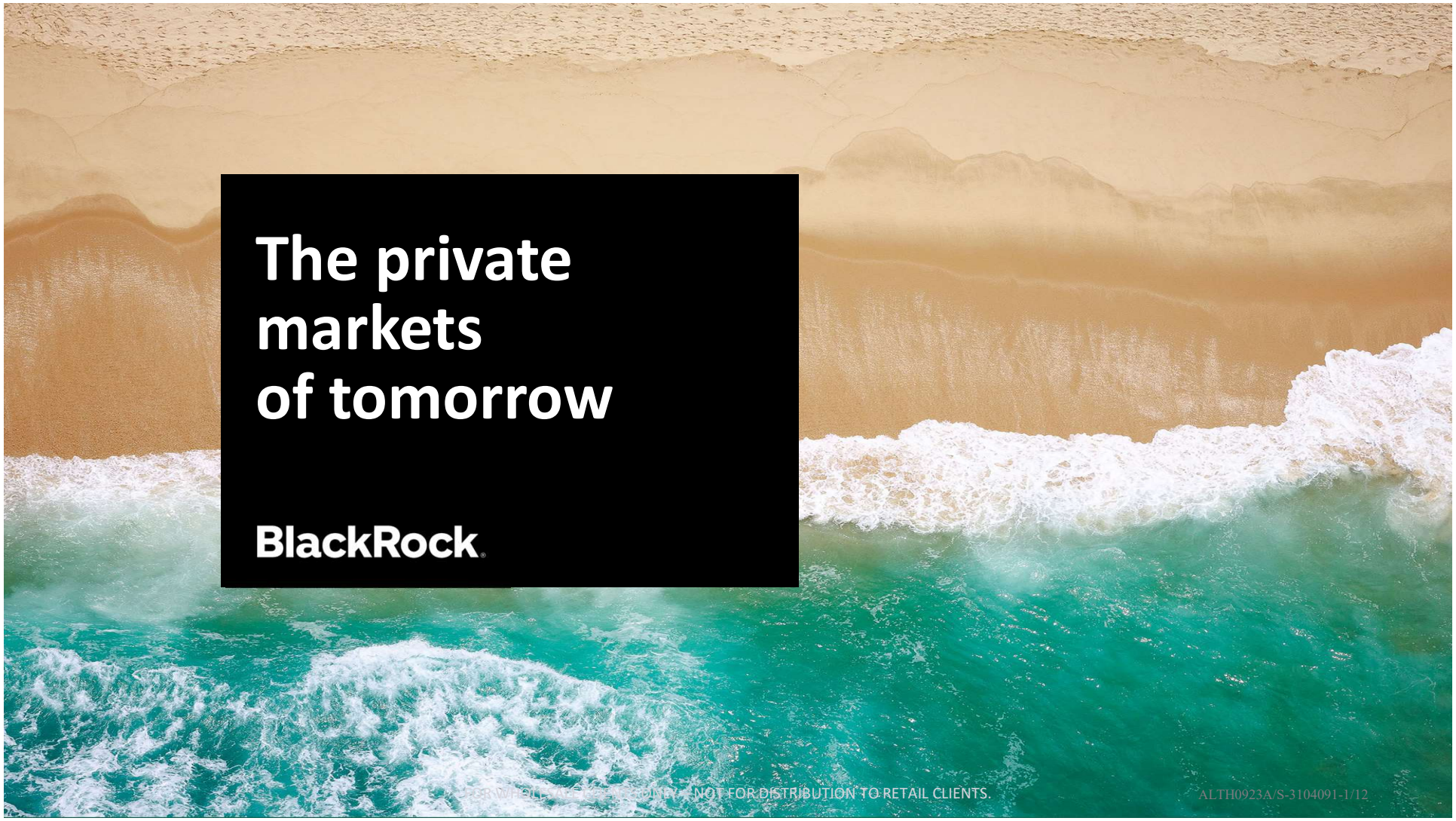

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Themes in focus

Drivers shaping opportunity for investors

Tightening of bank lending

A trend since the global financial crisis set to accelerate following recent events in the banking sector coupled with elevated lending costs for banks

As banks pull back, companies will seek alternative lenders of capital, creating a larger opportunity for private credit, specifically **Direct Lending**

Elevated need for liquidity

With market volatility driving the denominator effect, coupled with traditional exit paths slowing in the primary market, there's a growing need across LPs and GPs

Secondaries are well positioned as the key providers of liquidity in an illiquid asset class

Capital investment in the transition

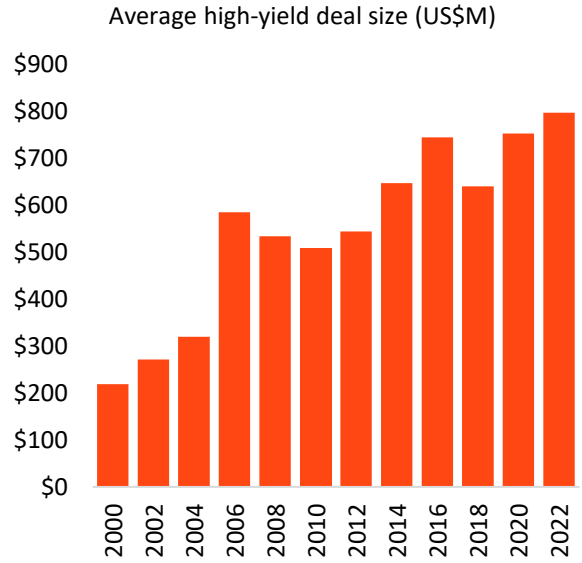
Global investment in the net-zero transition is set to step up considerably in the coming years, with policy action bolstering the speed and execution of investments

Transition Infrastructure will play a key role in in decarbonizing our global economy

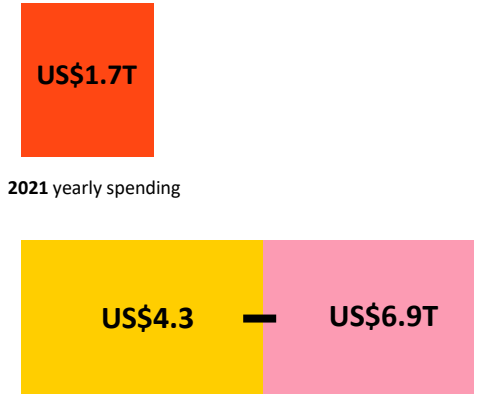
Any opinions and/or forecasts represent an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. There is no guarantee that any forecasts made will come to pass.

Private markets are more essential than ever to economic growth…

Private credit has access to mid-sized deals as high-yield markets pull back[1]



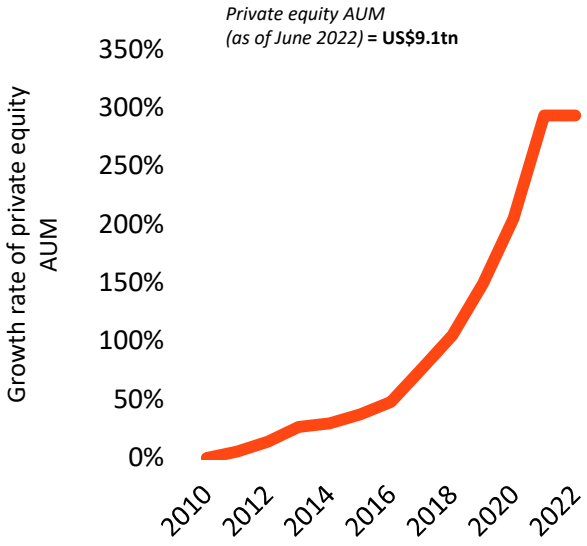
Infrastructure investment continues to benefit from the global energy transition[2]



2021 yearly spending

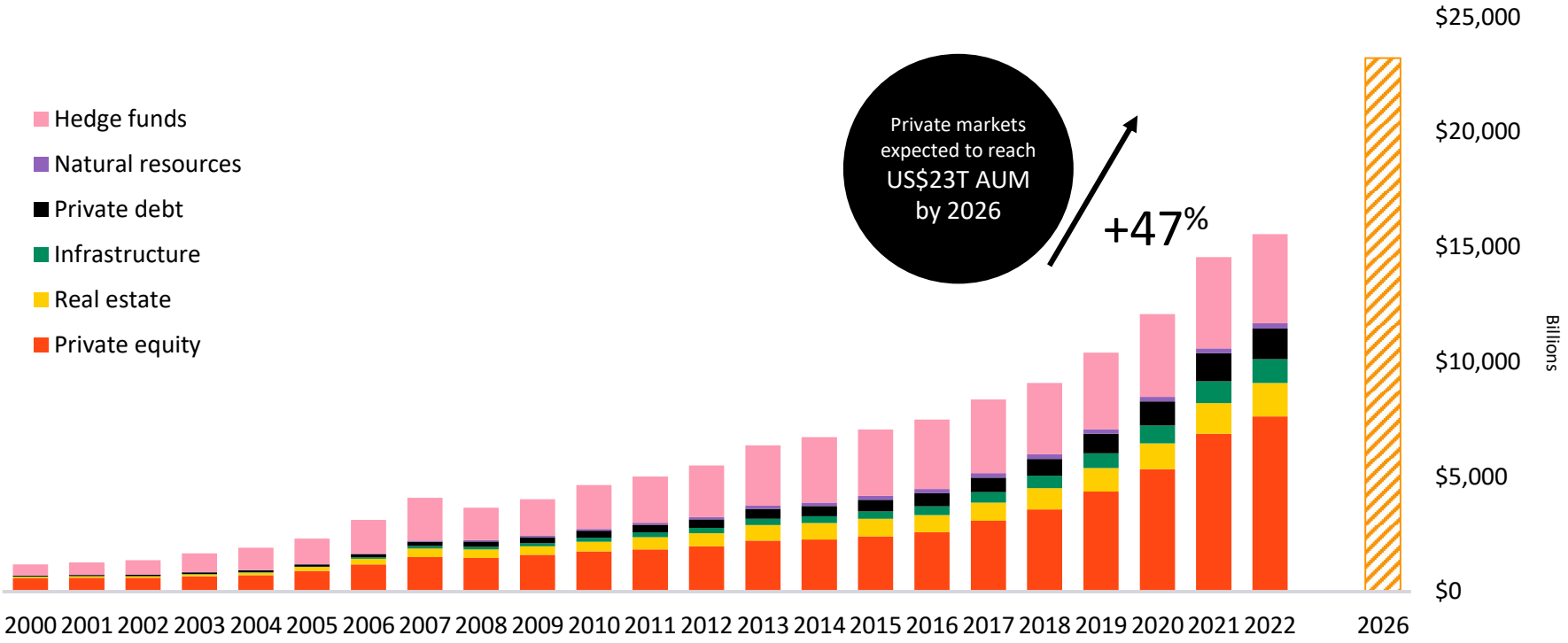
2022-2050 range of yearly spending required to reach net zero carbon emissions by 2050, depending on transition scenario

Private company values have seen significant growth[3]



Source: 1. Source: Dealogic, Goldman Sachs Global Investment Research. **Source: 2.** BloombergNEF, "New Energy Outlook 2021," "New Energy Outlook 2022." All figures are in USD. For illustrative purposes

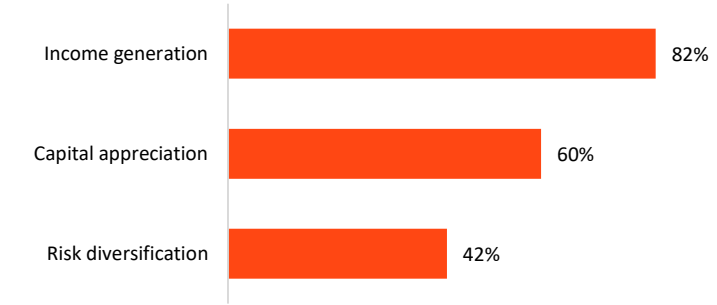
…increasing in size, diversity and breadth…



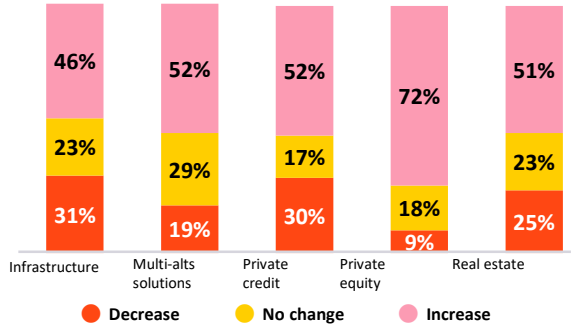
Sources: Hedge funds data from HFR Industry Reports as of 21/04/2023. Other private markets from Preqin, annualized AUM as of 30/6/2022. $23T AUM estimate from 12/1/2022 Preqin "Alternatives in 2022" Report. All figures are in USD. **Forecasts are not guaranteed and subject to change.**

…with investors adding to their allocations…

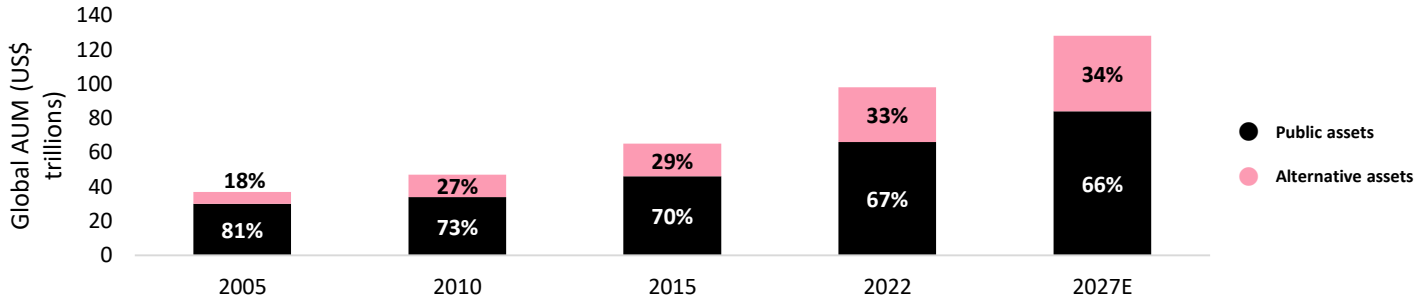
Investors are turning to private markets for a variety of reasons[1]



Private markets are increasingly attractive given the volatility in public markets[1]



Alternatives are becoming a bigger part of the investing landscape[2]



Sources: 1. BlackRock 2023 Global Private Markets Survey. Percentages may not add up to 100%, due to rounding. **Forecasts are not guaranteed and subject to change**. **2.** Source: BCG Global Asset Management, May 2022 (BCG analysis of data from Strategic Insight; P&I; ICI; Preqin; HFR; INREV). The figures relate to past performance. There is no guarantee that any forecasts made will come to pass. CAGR represents compound annual growth rate. **Past performance is not indicative of current or future results.**

Challenges with investing in alternatives

Investors cite multiple barriers in allocating to private markets

49%	Illiquidity/capital lockup
41%	Internal stakeholder buy-in
33%	Inappropriate legal structures and/or operational set-up
32%	Expertise of /comfort with asset class
29%	Risk profile of private assets
27%	Ability to deploy capital
23%	Regulation
23%	Transparency/Data quality
21%	Valuation issues

Source: Blackrock, Global Private Markets Survey 2023

Traditional approaches to portfolio construction are designed for public assets

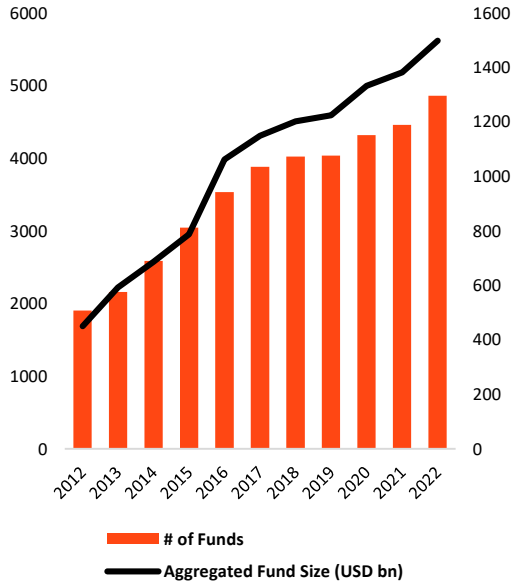
4 main discrepancies between public and private market approaches

1 Illiquidity	• Positions cannot be quickly and reliably sold; • Secondary market transactions can result in substantial costs.
2 Opaque valuations	• Mark-to-market valuations occur infrequently and irregularly. • Public market optimization models require frequent, regular valuations • Privates generally exhibit low accounting-based return volatility & correlations to public markets, but higher economic risk and market correlations when valuations are marked to market.
3 Access of data	• Access to data is limited. It is generally difficult to obtain data on private market transactions. • Quarterly fund-level cash flow and net asset value (NAV) information is often all that is available
4 Implementation	• Traditional frameworks optimize for target allocations and assume they can be implemented quickly. • In private markets, translating target allocations into actual exposures is likely to take time, to be inexact and to need regular revision as investments realize

Source: BlackRock, September 2022

Investors face other hurdles — some longstanding, some newer

Increased competition for investments[1]

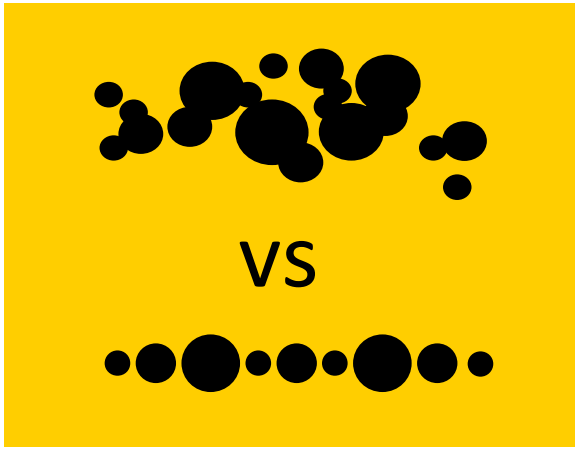


Disparate and limited data[2]

53%

of private markets investors rank data transparency and enhanced due diligence as top operational concerns

Difficulty comparing private markets with the rest of your portfolio

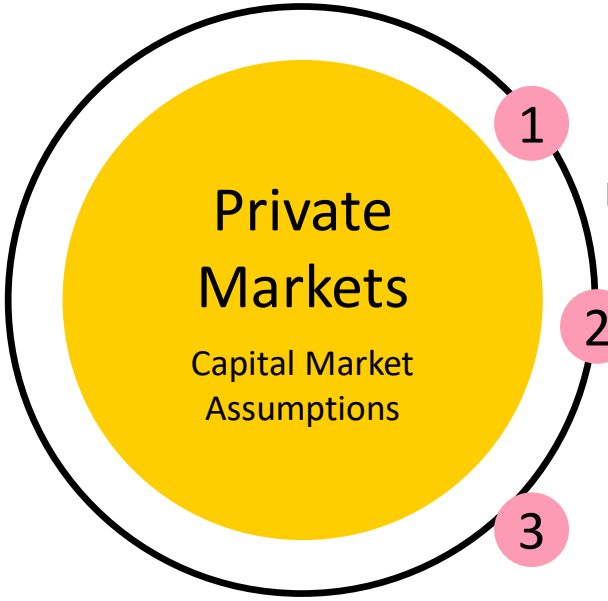


For illustrative purposes only. **Sources**: 1. Preqin, as of 31/12/2022, including all global closed-end funds in venture capital, private equity, infrastructure, real estate and private credit. 2. State Street Private Markets Study 2023, survey of 480 asset managers, private markets managers, insurers and asset owners.

Relative value across Private Markets

Asset Class	We see opportunities in: ✔	Headwinds might occur in: ✖
Private Equity	• Lower entry valuations or more active selection • High-quality businesses • Resilient businesses and structures	• Exit activity • Decreasing distributions • Companies adversely impacted by current macro headwinds
Private Credit	• Attractive risk premia • Increased role in providing capital • Strong downside protections	• Increased interest costs pressure on companies • 'Higher for longer' resulting in the need to refinance at higher spreads
Infrastructure	• Strong megatrends driving the asset class • Inflation protection hedges • Uneven opportunity set • Supportive policy	• Changes in policy and/or technology • Permitting challenges • Storage • Construction costs and supply chain issues
Real Estate	• Strong fundamentals • Long term structural trends • Value-add • Attractive entry valuations	• Central bank overtightening • Different risk profile for equity and debt investors • Further price volatility

A framework for private market valuations



1 **Public market expectations**

Interest rates, credit spreads, and corporate fundamentals

2 **Macro expectations**

Growth and inflation

3 **Private market valuations**

Transaction data on multiples, leverage, financing cost, interest coverage, etc.

Source: BlackRock, September 2022. For illustrative purposes only.

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