Global Private Markets Outlook

Prepare to pivot: the global rates cycle is poised to unlock capital

JULY 2024

New York Life Investments

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Executive Summary

The last two years can be described as a slow-motion liquidity crunch across private markets. Consistently high interest rates have created a domino effect on liquidity, effectively freezing portfolios with private investment exposure. Now, economic activity is beginning to slow, and central bank rate cuts could unearth a **generational opportunity in private markets allocation**.

Our view of the market

	Capital markets conditions	Impact on private markets
Post-GFC period	• Stable economic growth • Low interest rates • Significant increase in money supply globally due to central bank policy • Banking regulation increased in response to the global financial crisis	• "Search for yield" drove rapid growth in private markets fundraising, and a build up in private equity dry powder • Growth in private credit market, offering an alternative to traditional banks for financing
	Attractive, stable returns for public equities	***Attractive private markets performance with limited dispersion***
Post-pandemic period	• Sticky inflation impacts corporate profits • Higher interest rates and less availability of leverage make debt financing more expensive • Falling profits and higher cost of debt may contribute to an increase in bankruptcies • Geopolitical risk is on the rise, increasing macroeconomic-related volatility	• Fundraising, deal activity, and exit activity have slowed significantly • Investors see a persistent bid-ask spread on valuations among buyers and sellers • Dry powder continues to be concentrated in large and mega funds • Default risk is increasing as the cost of debt rises • Less debt capital and higher interest rates may impact ability to generate returns
	Economic uncertainty driving volatility in public markets	***Expected return dispersion to increase***
Looking ahead	• Moderate inflation and rates are likely here to stay • Global economic cycles are diverging, as countries outside the U.S. begin to cut interest rates • Structural trends related to digitization, electrification and climate change, and supply chain re-globalization keep upward lean to prices	• An impending global shift in yields, coupled with secular economic disruptions, creates a generational opportunity for investors in our view • The exit environment is showing signs of a modest rebound, as private equity sellers seek to monetize both aging and higher-quality portfolio companies
	Persistence of macroeconomic headwinds means that business building and earnings growth will matter more than financial engineering when generating returns.	***Outperformance potential remains, but investment selection, diversification, and value add opportunities are more critical to achieving attractive results.***

Opinions of New York Life Investments, 2024.

Our view of key asset classes

Private equity

- After a two-year slide in deals, exits, and funds closed, private equity activity stabilized somewhat in the first half of 2024. LP pressure is beginning to generate deal activity.
- Paths to liquidity are evolving, creating durable opportunities in **secondaries** markets in our view.
- Fundraising has been concentrated in large and mega funds. In response, we are focused on markets with supply-demand dynamics that enable high investment **selectivity**.
- As the macroeconomic environment evolves, business building and **earnings growth** may matter more than financial engineering for generating private equity returns.
- Consider **lower leverage** opportunities as economic activity slows.

Private credit

- There is still ample room to run in private credit, in our view. Current **yields** remain attractive on an absolute and relative basis.
- Despite the growth in commitments to private credit over time, investors remain underweight in this asset class relative to their targets, suggesting room for future **expansion**.
- In the event of a more significant economic slowdown, we are focused on the factors that have historically provided **resilience**, including conservative capital structure, availability of liquidity, and debt coverage. Contrary to common assumption, size is the least significant factor contributing to default frequency over time. Compared to similar asset classes, default rates for middle market private companies have been lower and recovery rates have been higher.

The "deep dive" section at the end of this piece illustrates one of our highest conviction perspectives in this turning point period: size. We see the lower middle market as an opportunity for diversification, relative stability, and attractive supply-demand dynamics for investors.

Real estate

- The early phase of countries' rate-cutting cycles may kickstart a generational opportunity in real estate allocation. A normalizing yield curve tends to signal the largest range in debt and equity opportunities for private investors.
- **Credit** opportunities remain strong as rates move steadily lower. Adding to this opportunity is the fact that many countries' banks are still on the sidelines due to regional banking concerns and prospects for enhanced regulation.
- Though there is likely downside in U.S. office to come, the bottom in valuations may already be in for many sectors, creating a market timing opportunity in **equity**.
- Investors who can see to recapitalization and liquidity needs may see **opportunistic** investments among otherwise high quality managers and assets.
- Focus on sectors experiencing secular demand.

Real assets

- Infrastructure now represents an independent **allocation** category among investors.
- Global trends related to digitization, climate change, and supply chain re-globalization are already fueling a **structural increase** in real assets demand. Private real assets represent a diversified and in some cases undervalued opportunity to capture that demand.

Opinions of New York Life Investments, 2024.

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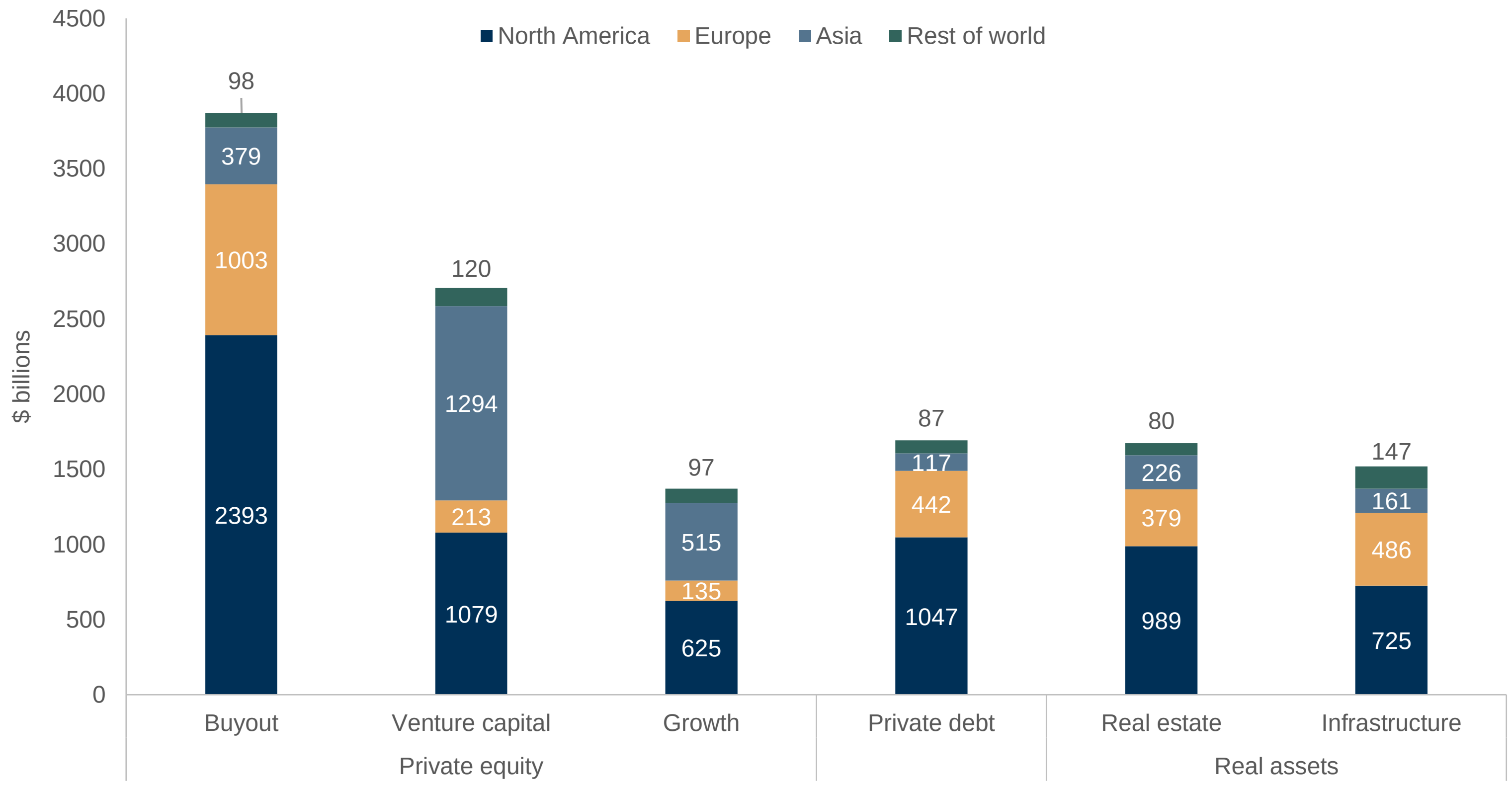
Capital Markets Conditions

Private markets represent more than $13 trillion in assets globally

At the same time, private markets' small size relative to global capital markets suggests there may be room for growth.

Private markets assets under management (AUM) by strategy and geography



Private markets size in context

Private markets make up less than 5% of global financing markets:

- Global private capital AUM: $13 trillion
- Global fixed income outstanding: $103 trillion
- Global equity market capitalization: $101 trillion
- Global size of banking sector balance sheets: $98 trillion

Source for the chart: McKinsey, "Global Private Markets Review 2024." Preqin, data as of 31 December 2023. Source for the "in context" list on the right: SIFMA for fixed income and equity market capitalizations, Bank for International Settlements for banking sector balance sheets. Data as of 31 March 2024.

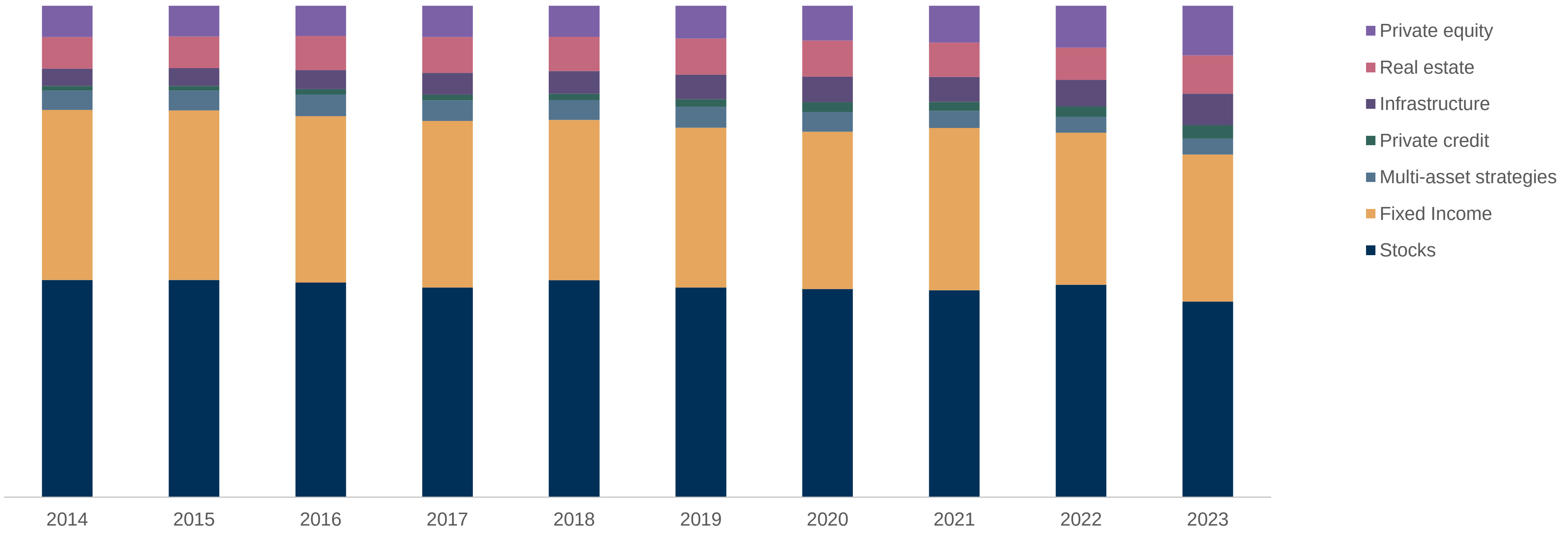
Investor allocation to private markets has continued to increase…

In the past, "lower for longer" interest rate drove investor attention to private markets. Now, even amid higher rates, allocation has grown.

- After the global financial crisis, lower rates forced institutional investors to seek yield and higher returns from private markets. In the current environment, interest rates are higher, but allocations continue to grow. Data on investor allocations suggests that investors have more appreciation of the diversifying benefits of the allocation.

Institutional investors have steadily increased their allocations to private markets…

Institutional investor asset allocations, 2014-2023, %



Sources: McKinsey, CEM Benchmarking, 2024. Allocations as of the beginning of each year.

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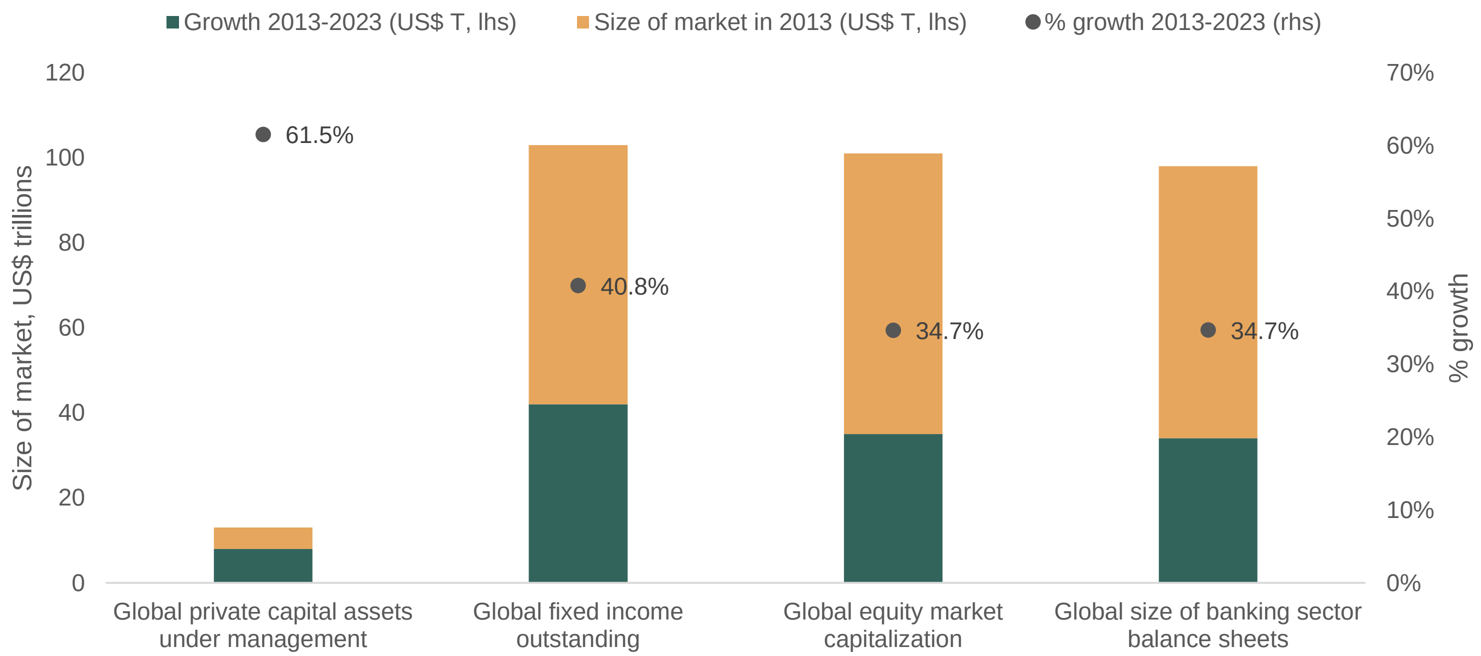
… and data suggests there may be more room for growth

Private markets have grown slower than global financing markets so far, suggesting there may be room for expansion over time.

Despite relative growth, private markets make up less than 5% of global financing markets, and only 6.7% of the financing growth in the last decade.

Size and growth of public vs. private markets



Private markets growth in context

Private markets have grown much slower than global financing markets over the past decade:

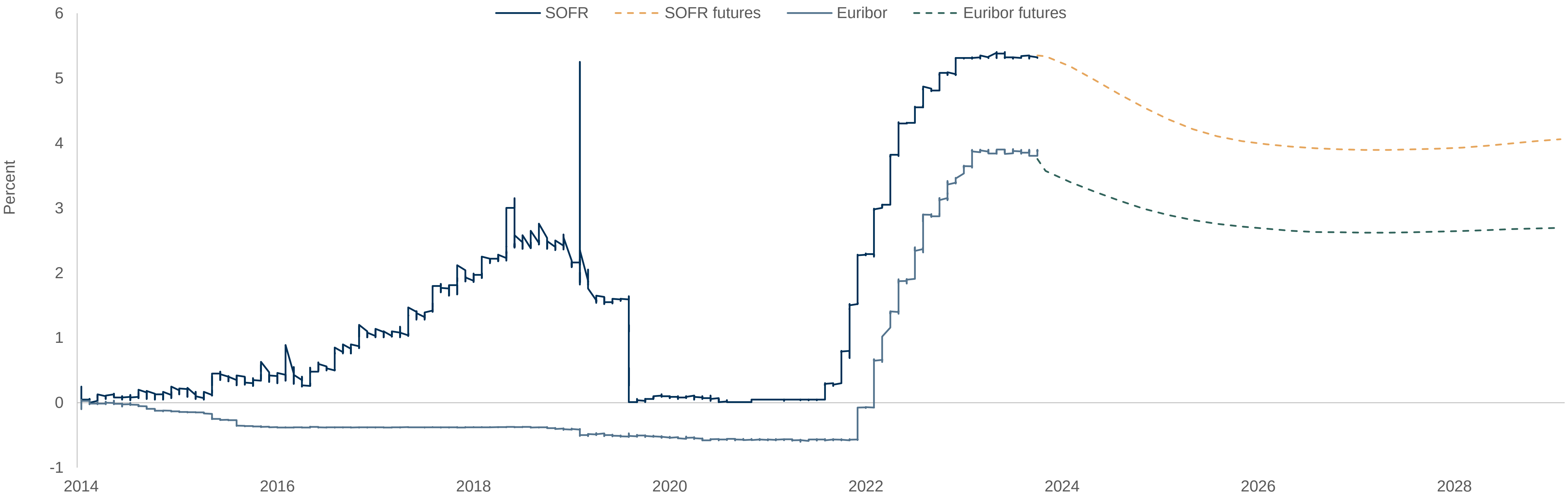
- $8 trillion increase in private markets AUM
- $42 trillion increase in global fixed income markets size
- $35 trillion increase in global equity market capitalization
- $34 trillion increase in the size of global banking sector balance sheets

Sources for the chart: Private markets size is gathered from PitchBook; fixed income and equity sizes are gathered from SIFMA, and banking data is gathered from the Bank for International Settlements (BIS). Data gathered on June 2024 for end of year 2023. Source for the “in context” list on the right: SIFMA for fixed income and equity market capitalizations, Bank for International Settlements for banking sector balance sheets, July 2024.. Since the latest data for some segments goes only to June 30, 2023, data for all segments is provided as of that date, and “the past decade” measures June 3013 to June 2023.

The rates cycle is likely at a turning point, but markets price “higher for longer”

We believe expected interest rate cuts would improve market sentiment this year, but long-term expectations are for higher rates.

Higher for longer interest rates are being priced into SOFR and EURIBOR futures



Sources: New York Life Investments Global Market Strategy, Federal Reserve, ECB (European Central Bank), Bloomberg, Macrobond, July 2024. The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. The Euro Interbank Offered Rate is a daily reference rate, published by the European Money Markets Institute, based on the averaged interest rates at which Eurozone banks borrow unsecured funds from counterparties in the euro wholesale money market.

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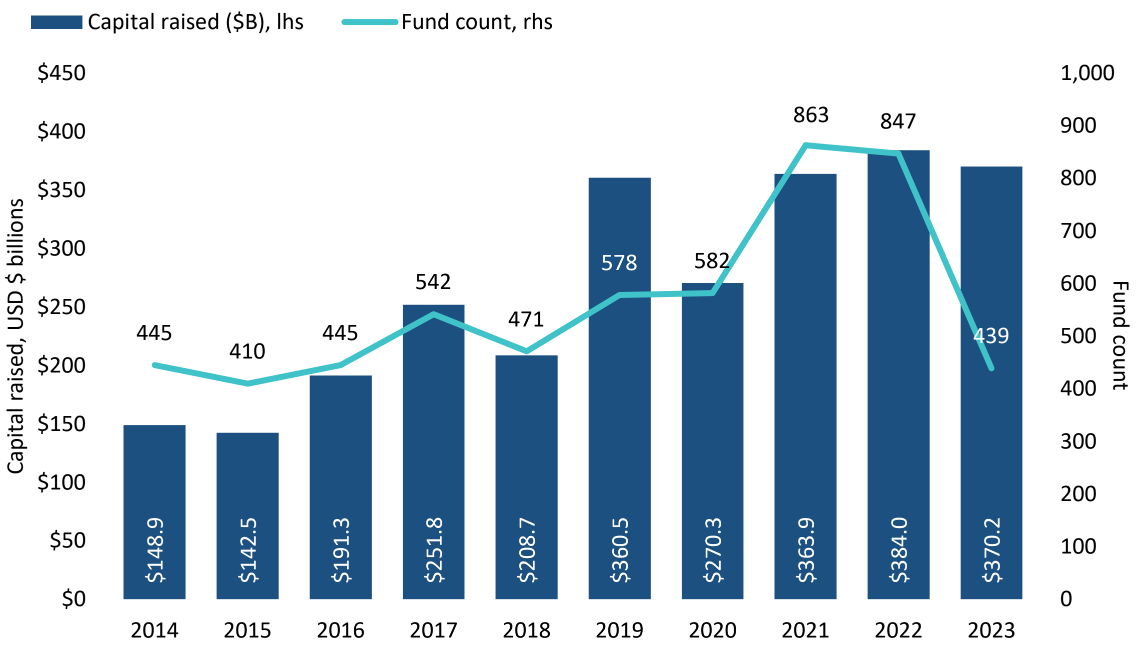
Higher rates have led to slower fundraising, investment, and exit activity…

As interest rate expectations rose in 2022, private markets saw a sharp slowdown in investment and exit activity.

A previously steady increase in fundraising has stalled in recent years.

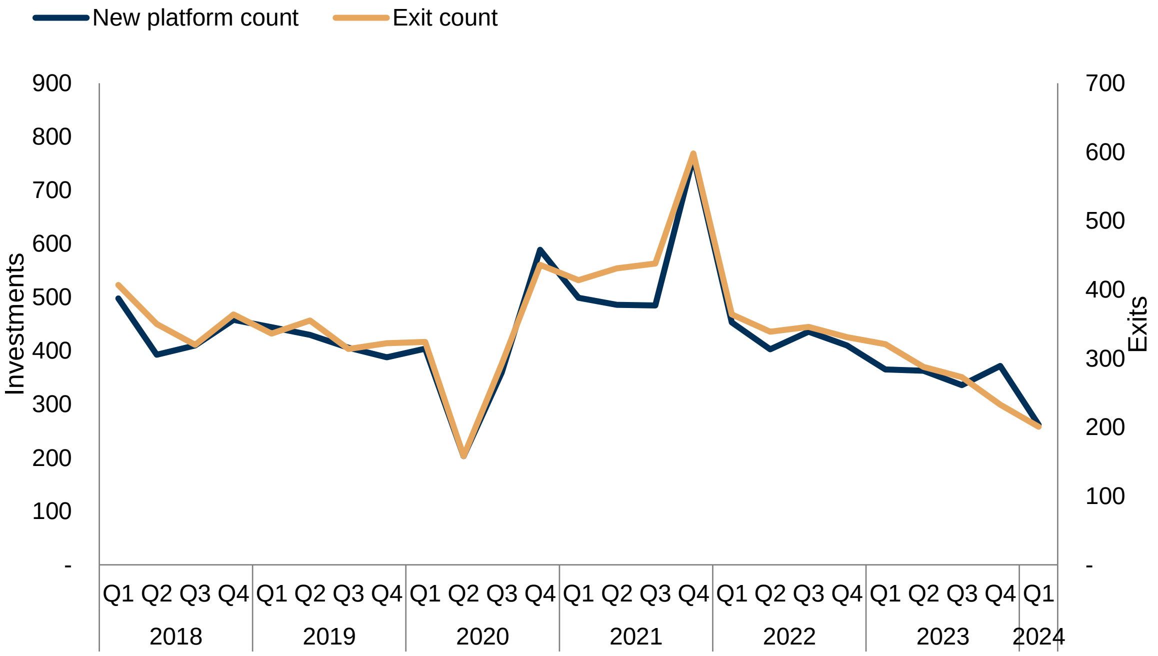
U.S. private equity fundraising activity



Sources: PitchBook, as of March 31, 2024, accessed July 2024. Since full-year data is not available for 2024, data is shown through year end 2023.

New deal flow and exits have also slowed considerably.

U.S. private equity deal and exit count



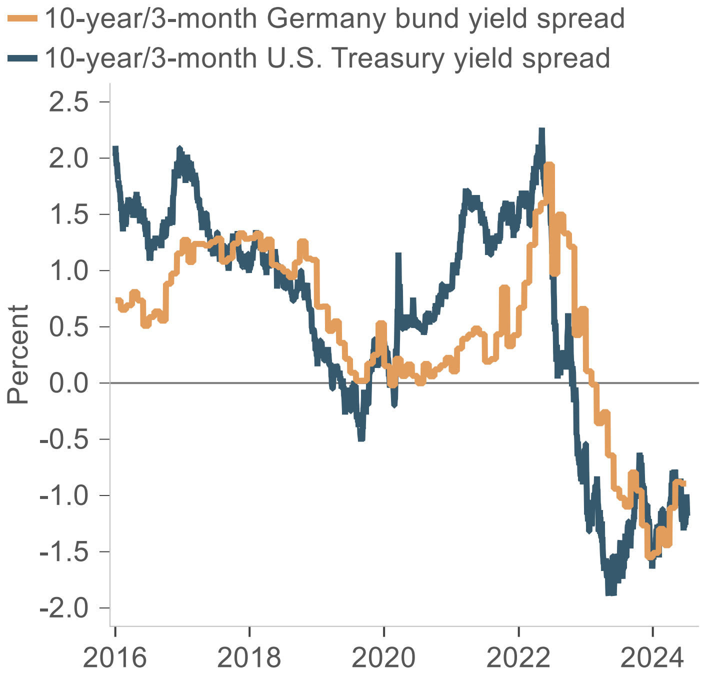
Sources: PitchBook, as of March 31, 2024, accessed July 2024. Since full-year data is not available for 2024, data is shown through year end 2023.

… and contributed to considerably tighter bank lending conditions

Tighter bank lending standards have constrained economic activity in the U.S. and Europe, giving private actors an opportunity to step in.

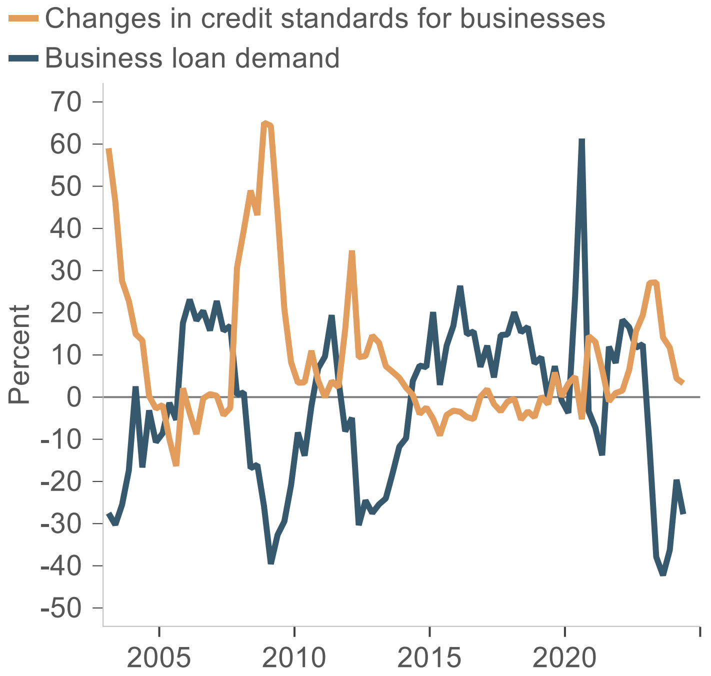
In both the U.S. and Europe, higher policy rates have led to an inverted yield curve. This disincentivizes bank lending, and has contributed to a tightening of credit standards, pullback in bank lending, and less business demand for bank loans. We believe tighter bank credit conditions may provide private lenders the opportunity to fill significant need.

As long as the yield curve is inverted, banks are disincentivized from lending



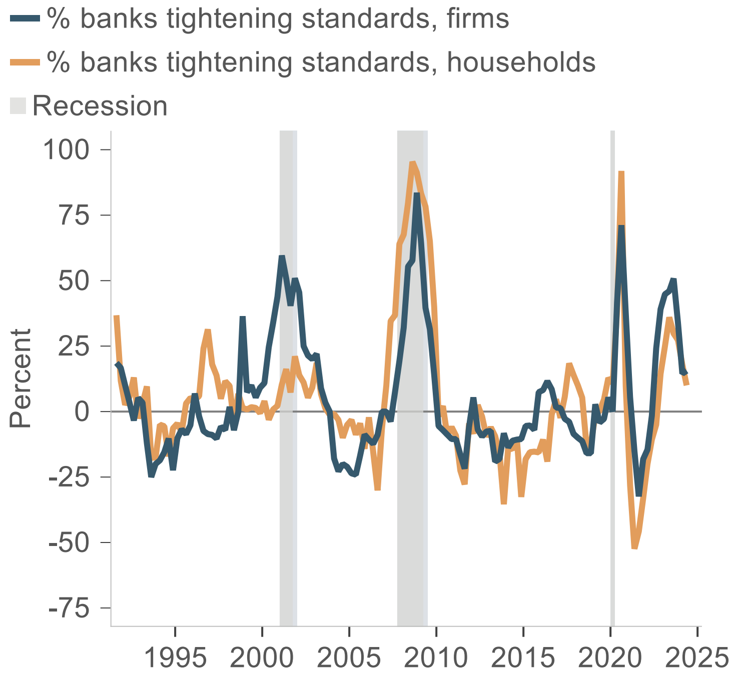
Sources: New York Life Investments Global Market Strategy, U.S. Department of Treasury, Macrobond Financial AB, Macrobond, July 2024.

Europe: credit standards have tightened while demand for loans has fallen



Sources: New York Life Investments Global Market Strategy, ECB (European Central Bank), Macrobond, July 2024.

United States: tight bank lending standards have tended to constrain economic activity



Sources: New York Life Investments Global Market Strategy, U.S. Federal Reserve, Bloomberg, Macrobond, July 2024.

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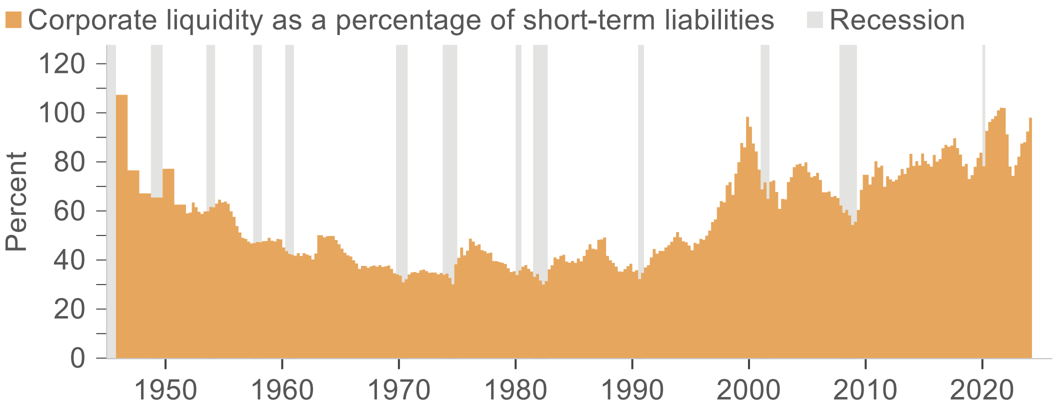
Company profits have been resilient, but may be reaching a turning point

After a strong post-pandemic recovery, corporate profits in many countries are now stagnating.

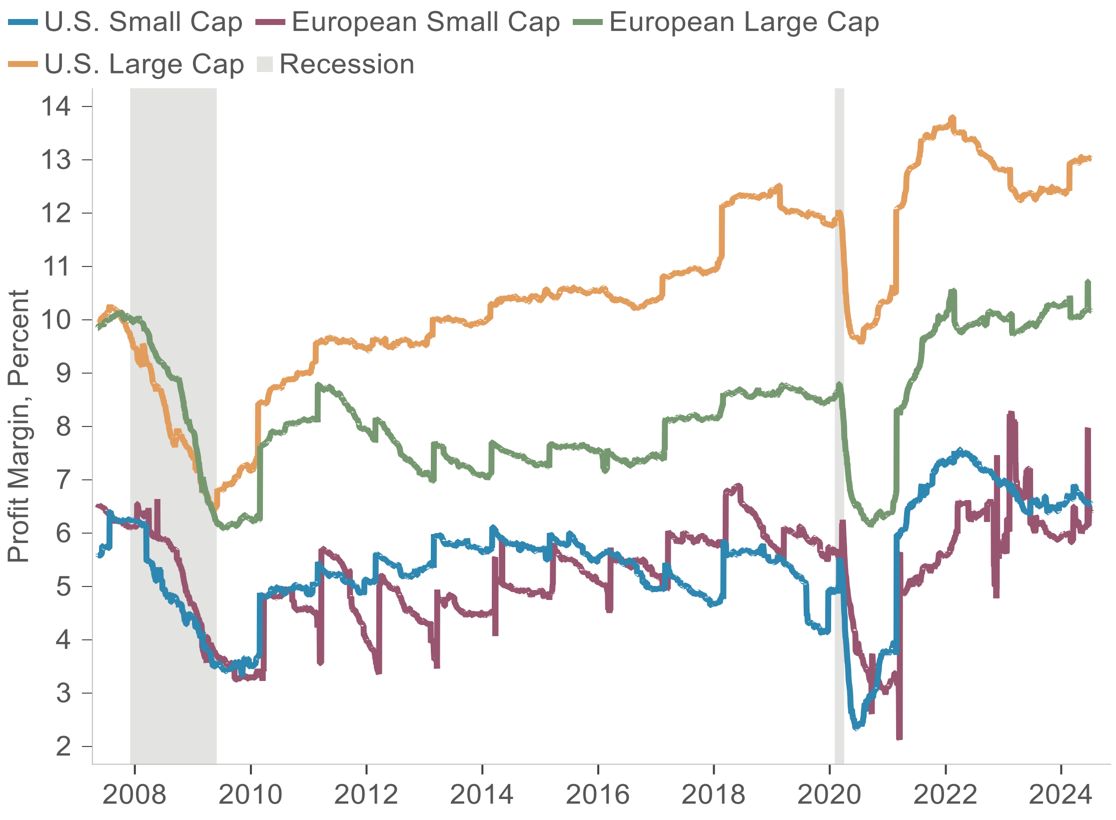
- Fiscal stimulus (pandemic programs) and monetary stimulus (low interest rates, credit facilities) allowed companies to both build up cash and deleverage throughout the post-pandemic period. As a result, many businesses have protected their bottom lines.
- Large companies with access to public capital markets have maintained strong liquidity (**below chart**), supporting earnings resilience by allowing those companies to invest cheaply-acquired capital in a higher-rate environment.
- But for much of the market, cracks are beginning to appear. Top-line revenue growth has slowed and profit margins have stagnated (**right chart**). Indeed, at an aggregate level, corporate profit margins after tax are now deteriorating. Results vary meaningfully by company, with some sectors and business models still showing impressive resilience. In our view, investors will increasingly need to focus on careful credit selection.

United States: Large companies with access to public capital markets have maintained strong liquidity, supporting earnings resilience



Sources: New York Life Investments Global Market Strategy, Federal Reserve, NBER (National Bureau of Economic Research), Macrobond, July 2024.

Public company profit growth has been muddling, particularly for small caps



Sources: New York Life Investments Global Market Strategy, NBER (National Bureau of Economic Research), Macrobond, July 2024. U.S. Large Cap: S&P 500 Index. U.S. Small Cap: Russell 2000 Index. European Large Cap: Euro STOXX 600 Index. European Small Cap: FTSE Developed Europe Small Cap Index. It is not possible to invest directly in an index.

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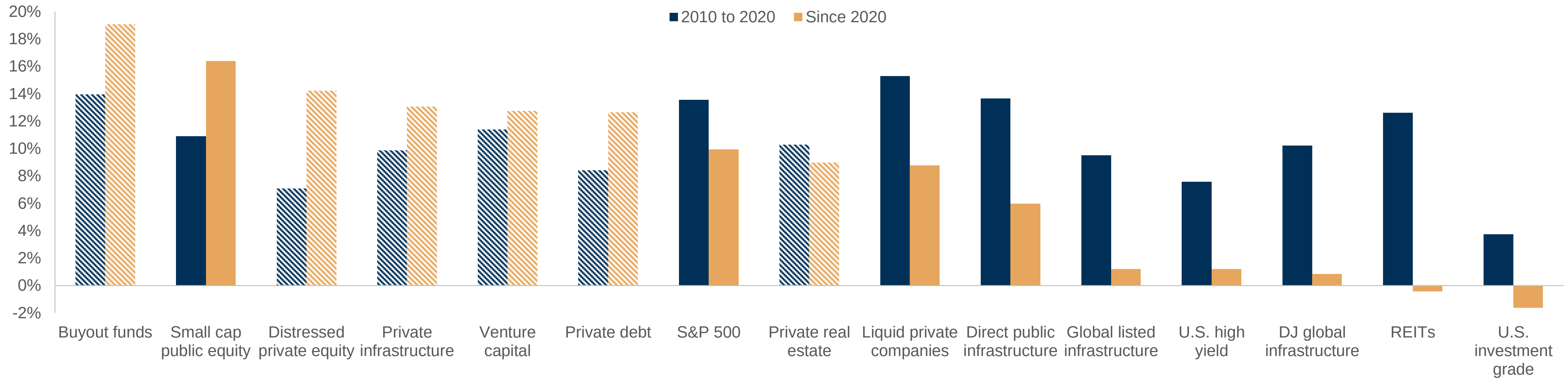
Despite headwinds, private market returns have been strong

Private markets' historical outperformance of public markets has continued under current macroeconomic conditions.

- It is difficult to perfectly benchmark private investments to public ones. Risks to private investments can be underestimated by lower reporting frequency. Manager selection and survivorship bias can be more important in private markets, which means the aggregate figures can hide large performance dispersion. That said, investors have historically seen higher returns in private markets, thanks in part to their illiquidity premium relative to public markets. In addition, there is evidence of this private markets outperformance being rooted in their business models and the more direct influence asset managers can have on their portfolio companies or assets. The resulting steady increase in investor allocation to private markets may suggest investors see sustained benefit of that exposure.

Private markets' historical outperformance has continued in the current environment

Annualized performance of public and private markets asset classes; private assets are indicated by striped bars



Sources: New York Life Investments Global Market Strategy and Apogem, July 2024. Sources for public market indices: Bloomberg. Small cap public equity is represented by the Russell 2000. Liquid private companies re represented by LPX50TR. Direct public infrastructure is represented by EDHUSA. Global listed infrastructure is represented by LPXDITU. GDJ Global infrastructure is represented by the Dow Jones Brookfield Global Infrastructure Index. REITs are represented by the FTSE NAREIT. Source for Private Markets Indices: Preqin Private Capital Performance Quarterly Indices. Please see the disclosure section of this presentation for additional benchmark details.

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The biggest risk to private markets may be overheating – not recession

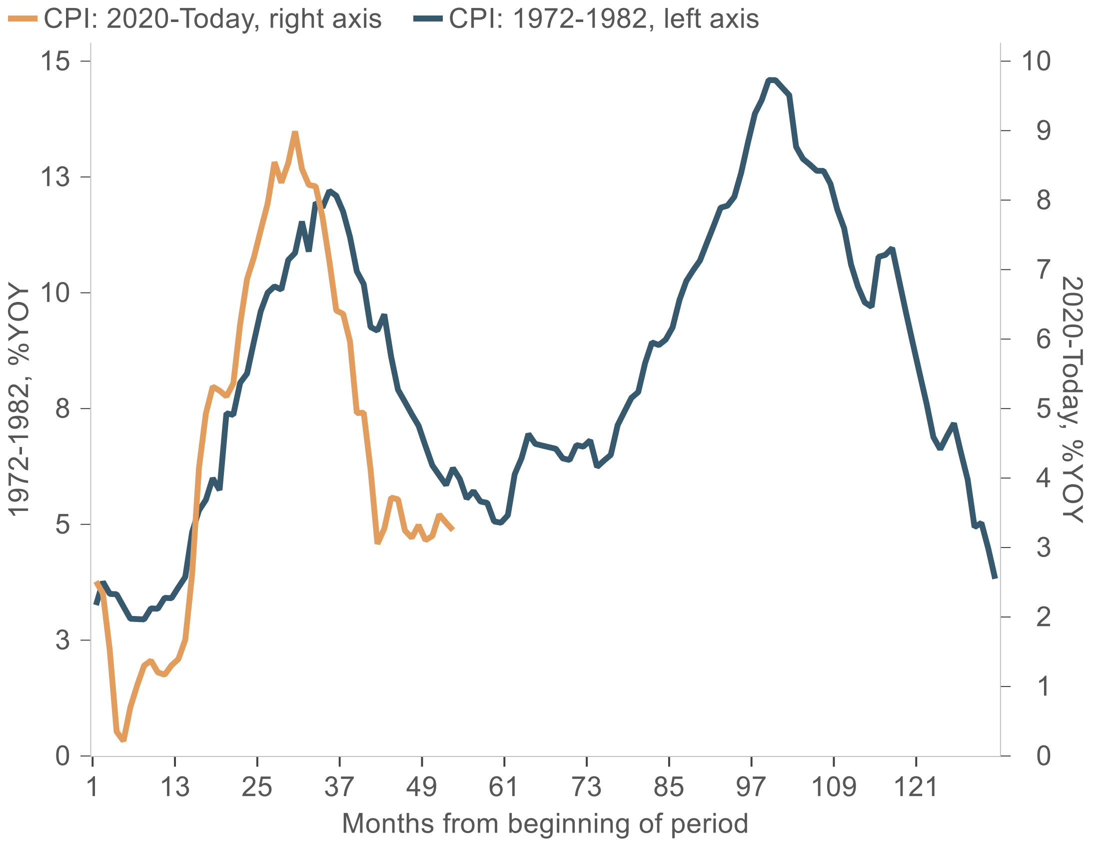
Investors often fear recession, but we believe a re-freezing of deal activity due to a turnaround in U.S. inflation could be more perilous.

- Though global economies have different economic cycles, the size and depth of U.S. capital markets means its interest rate cycle has impacted global capital flows. In recent quarters, the U.S. economy has been slowing, giving investors confidence that interest rate cuts – and therefore improvements in private markets activity – may be coming. In our view, a key risk to private markets is if this trend does not materialize. If the U.S. economy – and inflation – were to re-accelerate, potentially reminiscent of the double peak in inflation in the 1980s (**chart**), it could contribute to a more challenging fundraising, distribution, and credit cycle.

Drivers of an economic overheating

Indicator	Description
Policy change	Amid an economic backdrop of sticky inflation and a tight labor market, incremental government spending or a large increase in tariffs may increase the likelihood of economic overheating.
Profit margins rise	Profit margins are the last stronghold keeping the labor market intact, but have been slowing. A reversal in this trend could signal sustained corporate health, but may also mean wage pressures stay high.
Manufacturing turnaround	Manufacturing PMIs are a key leading indicator of the U.S. economy, and have signaled contraction for 18+ months. If the manufacturing sector were to re-accelerate, it would be a sign that the economy may be speeding back up.
Loose financial conditions	Loose market financial conditions – in other words, the rally in public equity and credit spreads – can contribute to greater consumer and CEO confidence, and make it harder to fight inflation.
Bank lending standards loosen	As long as the yield curve is inverted, U.S. banks face meaningful pressure on their balance sheets and have to be more careful with lending. If this reversed, we could see more support of economic activity.

Economic overheating would make interest rate relief less likely



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, July 2024.

Global megatrends may shape the private markets opportunity

Global economic shifts make higher corporate and government spending, inflation, and sector disruption more likely, in our view

- A powerful combination of global economic and geopolitical events – The COVID-19 pandemic, the resulting inflation wave, the increasing visibility of climate change, Russia's invasion of Ukraine, the rapid rise in computing power of semiconductors — is overlapping to create sizable change in investor opportunities.
- We believe that the combination of national interest (public funding), corporate leadership (capital expenditure), and universal application (household interest) in these trends will result in durable investment.
- In the near term, we expect these transitions to be highly capital-intensive, resulting in higher inflation: More materials required, higher cost of those materials, and potentially "higher for longer" interest rates as a result.
- In the medium term, as trend adoption broadens and deepens in the medium to long term, greater productivity is widely expected to follow, pushing down costs for consumers as certain services become automated.
- In the long term: How interest rates absorb the impact of any productivity shock remains uncertain. It comes down to the simplest economic growth formula: The potential growth rate depends on the amount of capital stock, the amount of labor, and how productive labor is in making use of this capital.
- For private markets: market disruptions and capital-intensive investments impact supply and demand factors in some markets (e.g. real assets), and the ability to compete in others (e.g. company results). Investors can assist by identifying attractive supply-demand dynamics or provide the business-building acumen and capital reserves that enable companies to better navigate or even capture these economic transitions.

Global transitions are shaping capital markets outcomes

Digitization and AI	Self-sufficiency in semiconductor production is an impractical and nearly impossible goal for every country. Achieving scale in artificial intelligence (AI) production will require significant investment in infrastructure and application — and may create meaningful opportunity.
Climate change and electrification	Existing climate goals, and the more visible impact of climate change, are contributing to stricter regulations on company activities and property types. In addition, a green transition will require extensive use of raw materials, especially if limited to current technology.
Supply chain re-globalization	Investors have been focused on de-globalization, but the complex nature of global supply chains makes it more likely that re-globalization – A focus on access rather than efficiency of production — will become the norm.

Opinions of New York Life Investments Global Market Strategy, July 2024.

GLOBAL PRIVATE MARKETS OUTLOOK

Asset class views

Summary

Our key takeaways per asset class, explored in depth throughout this section.

Private equity

- A sharp decline in credit availability and M&A activity has resulted in depressed exit activity for PE funds and ultimately lower distributions for LPs. Without the distributions LPs need to reinvest, PE funds struggled to fundraise at the same pace as previous years.
- In response to higher rates, investors are seeing more conservative capital structures and lower use of leverage. Historically, middle market private equity managers utilize leverage more conservatively than their large and mega peers, which has contributed to the proven resilience of fund performance during higher rate and recessionary periods.
- With less availability of leverage and longer hold periods, we believe PE funds will need to implement effective value creation initiatives and grow company profits in order to deliver strong returns.

Investor approach: Focus on lower leverage opportunities and markets with supply-demand dynamics that enable high investment selectivity.

Private credit

- During a turbulent time, private credit has been a relative bright spot, topping private markets asset classes in terms of fundraising growth, increases in assets under management, and performance.
- Despite the growth in commitments to private credit over time, investors remain underweight in this asset class relative to their targets.
- In the event of a more significant economic slowdown, private credit may be able to navigate the environment more fluidly because the direct relationship between borrowers and lenders can provide higher flexibility. This appears to be even more the case for the middle market. Historically speaking, default rates for middle-market private companies have been lower and recovery rates have been higher when compared to similar asset classes.

Investor approach: Capture the benefits of higher yield in both U.S. and European direct lending. We favor the middle market and lower-middle market due to their historical relative safety.

Real estate

- The early phase of countries' rate-cutting cycles may kickstart a generational opportunity in real estate allocation. A normalizing yield curve tends to signal the largest range in debt and equity opportunities for private investors.
- Europe has seen more price discovery already. While the U.S. may see more volatility, especially in office, we believe the bottom is in on many sectors' valuations. In our view, this means a market timing opportunity in equity may be arising.
- Investors have often focused on disruptions to office space related to work-at-home adjustments. But similar disruptions are driving higher rents in other sectors. Environmental improvements, better amenities, and strong demand related to secular changes (i.e. demand for data centers warehousing, and logistics) create opportunities in our view.

Investor approach: Investors who can play across the capital stack, risk spectrum, and geographies can potentially capitalize on market disruption. Focus on sectors experiencing secular demand.

Real assets

- In our view, global transitions towards digitization, electrification, and supply chain re-globalization are likely to increase demand for real assets. We believe this demand may come through at least two channels. The first is a physical need for commodities and materials to build the structures and items (infrastructure) required to fuel these global megatrends. The second is that this capital-intensive stage in the global economic environment may increase inflation and interest rate volatility. Historically, real assets have outperformed in periods of higher inflation and rates volatility.
- We believe that demand for infrastructure may have knock-on effects for other asset classes as well, including listed equity, bonds, as well as private assets including private equity and demand for loans.

Investor approach: Capture benefits of global transitions related to digitization, climate change, and supply chain re-globalization.

Opinions of New York Life Investments, 2024.

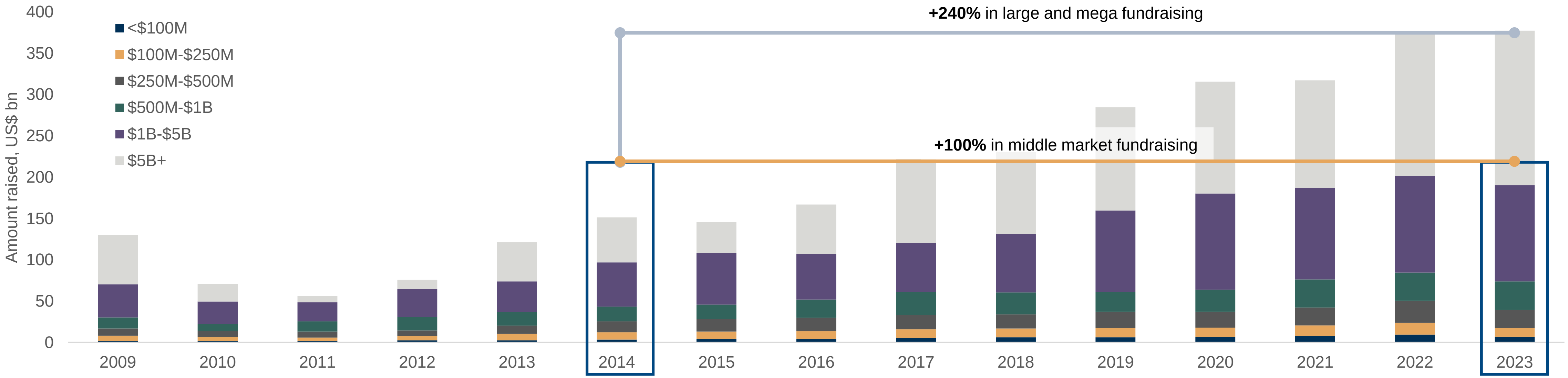
Private equity: fundraising has slowed overall, and strongly favors larger firms

Investors observe ample capital chasing too few deals in large and mega funds, a dynamic that has continued even as fundraising slowed

- In the years after the global financial crisis, private equity fundraising volumes seemed to go in only one direction: up. But since 2022, higher financing costs and an uncertain macroeconomic environment has created a challenging backdrop for private equity managers. Fundraising slowed, and managers were on the fundraising trail longer to raise this capital: funds that closed in 2023 were open for a record-high average of 20.1 months, compared to 18.7 months in 2022 and 14.1 months in 2018, according to McKinsey.
- Despite the challenges for aggregate fundraising, market structure in private equity has remained consistent. Large and mega funds have dominated the fundraising environment (**chart**).
- As the macroeconomic environment shifts away from the stable, low rate, “wind at your back” period of the 2010s, business building and earnings growth may matter more than financial engineering when generating private markets returns. We believe this creates opportunities in less efficient parts of the market, and in areas where supply-demand dynamics enable investment selectivity.

Large and mega funds have dominated fundraising

US private equity fundraising by fund size, two-year rolling average



Sources: Apogem, PitchBook, “US Private Equity Breakdown, 2024 Q1.” Large and mega funds defined as fund sizes greater than $5 billion.

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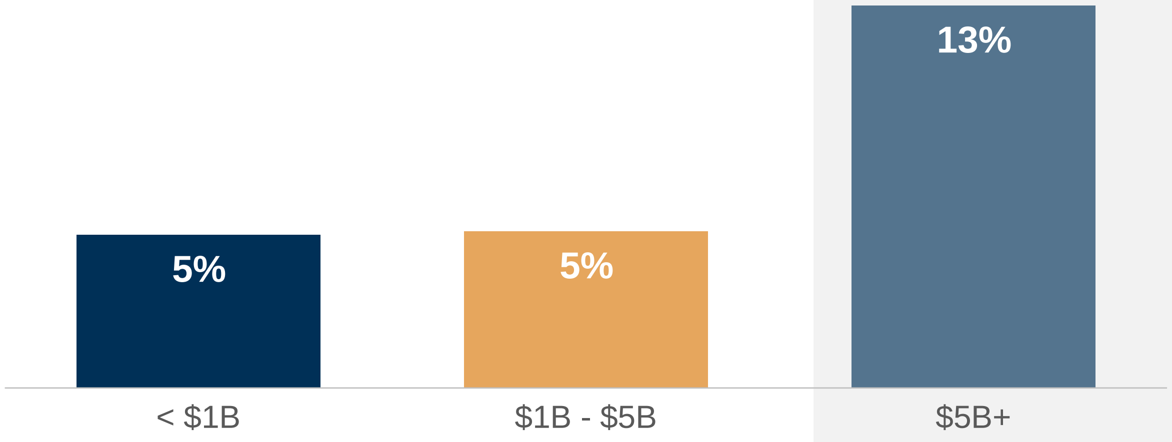
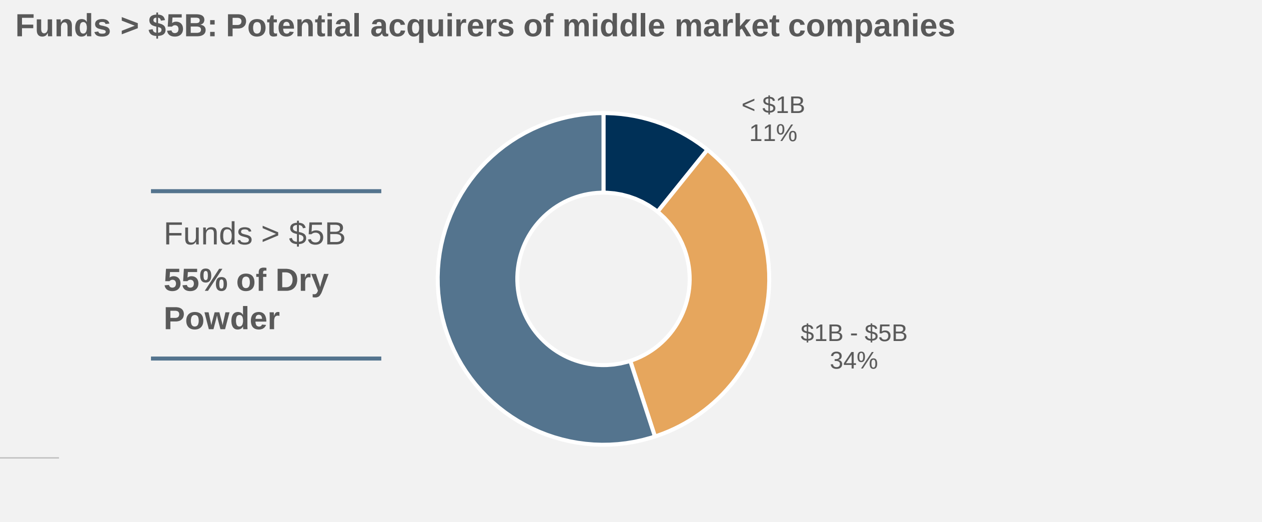
Private equity: dry powder is also concentrated in large and mega funds

A buildup of dry powder in large and mega funds creates a deep pool of durable capital for potential acquirers of middle market companies

- Despite fundraising challenges, large and mega private equity funds' dry powder has increased by an average of 13% annually over the past 3 years, relative to 5% and 5% for core middle market and lower middle market funds, respectively.
- Just as fundraising has favored large and mega private equity funds, dry powder in these funds now accounts for 55% of total private equity dry powder. While this is seemingly positive for asset gatherers, these markets continue to see intense competition for deals, driving up multiples even in the current environment.
- We view the size and concentration of dry powder as a potential positive for middle market private equity, as it means there is less competition in the space, and more capital up-market for companies to exit into. As deal volume resumes, investors may find a modest period in which a relatively lower volume of capital can be deployed in a rising number of deals.

Average year-over-year change in dry powder by fund size





Sources: Pitchbook, data through December 31, 2023. Data shows average year-over-year change in dry powder by fund size over the last three years, for U.S. private equity.

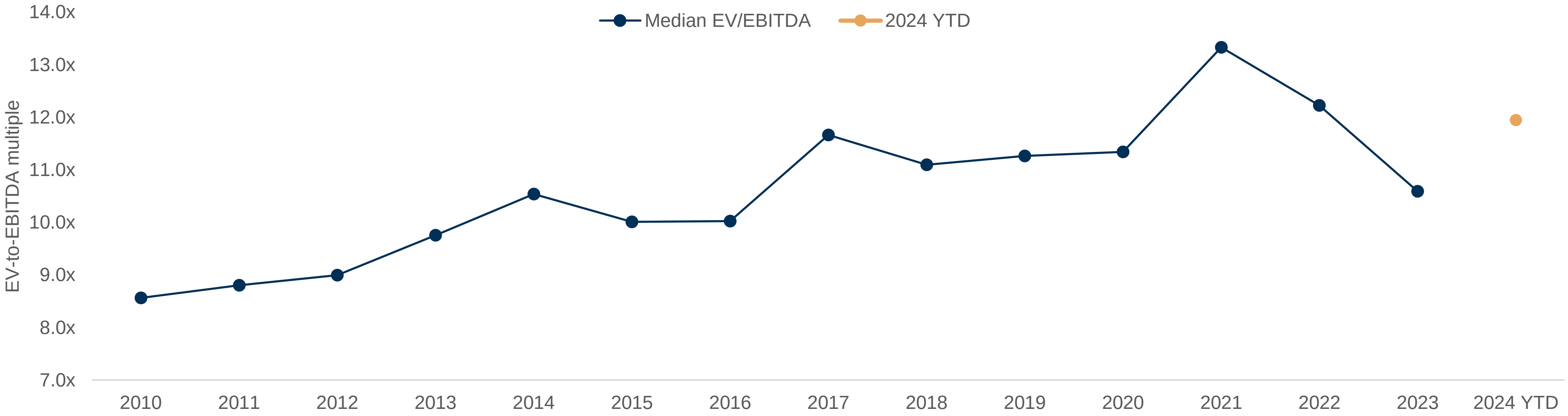
Private equity companies are acting with discipline amid higher rates and risk

Leverage for large corporate leveraged buy-outs has fallen. More conservative structures may reduce risk in a downturn by creating more flexibility.

- Higher rates have resulted in more discipline among private equity companies. We are seeing more conservative capital structures and lower use of leverage. These developments may allow for more flexibility, as well as a high ability to withstand downturns.
- Historical private equity performance has been driven significantly by leverage, which accounted or approximately 50% of investment returns for buyout deals from 2010 to 2021, according to Bain. Reduced use of leverage in the current environment, combined with the higher cost of financing, would have a mitigating effect on investment returns for the current vintage of deals, all else equal. This trend, combined with lower exit multiples, should they sustain, will make operational improvements within portfolio companies critical for investment outperformance in the current environment.

Leverage has declined in the recent higher rate environment

Median North America and Europe PE buyout EV-to-EBITDA multiples



Sources: New York Life Investments Global Market Strategy, PitchBook, "Q1 2024 Global Private Markets Fundraising report." Year to date (YTD) 2024 represents partial year data., as of 31 March 2024. EV indicates enterprise value, which is an economic measure reflecting the market value of a business. EBITDA indicates earnings before interest, tax, depreciation, and amortization.

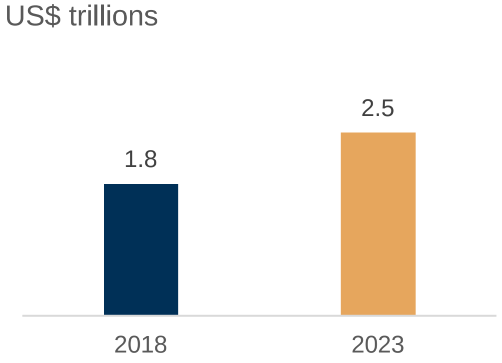
Paths to liquidity are evolving; both traditional and new sources appear to be on the rise

Longer hold times have allowed the secondaries market to mature, and have contributed to the growth of strategic add-on or value add.

- Among traditional sources of liquidity: Large private equity funds have durable pools of capital that have continued to grow even among higher interest rates and macroeconomic volatility. Corporate buyers are holding larger stockpiles of cash as well. We believe these buyers will be motivated to put capital to work as – and even before – the M&A environment normalizes.
- Among new sources of liquidity: The secondary market has grown rapidly in the last decade. This growth has been driven in part by increasing sophistication of LPs in utilizing the secondary market to manage their private markets exposure – allowing them to exercise more control over their portfolio and liquidity. This provides other secondary investors with more consistent deal flow, as sales are not exclusively tied to economic downturns. The market has also seen an increase in GP-led secondary volume, most prominently continuation vehicles (CVs). CV transactions enable GPs to continue holding their favored assets, while allowing LPs the option to receive liquidity from the transaction or roll their exposure into the new structure.
- In addition, many larger PE funds have focused on strategic add-ons to grow companies. This strategy has become particularly attractive when managers can grow existing platforms with management teams they know rather than risk acquisition of a new platform. Add-on deal activity has been relatively resilient in the current environment, which can present a new path to exit for portfolio companies.

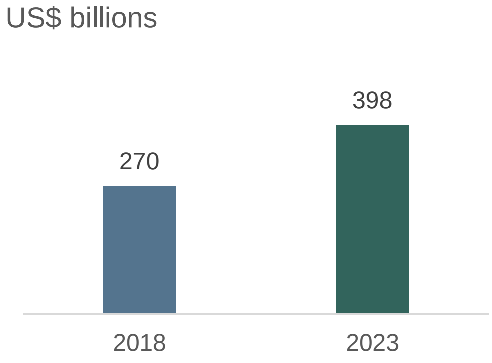
Traditional sources of liquidity

+35% increase
… in corporate cash



Source: Bloomberg, July 2024

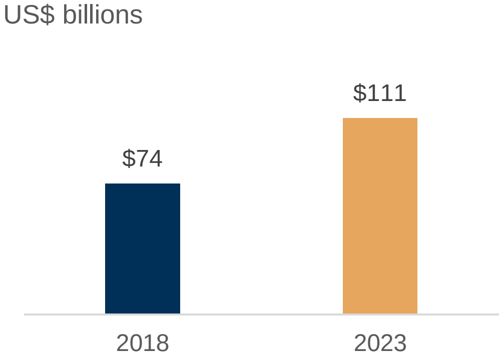
+47% increase
… in large & mega PE dry powder



Source: PitchBook. Includes U.S. and Canada PE Funds > $5 billion, as of December 31, 2023.

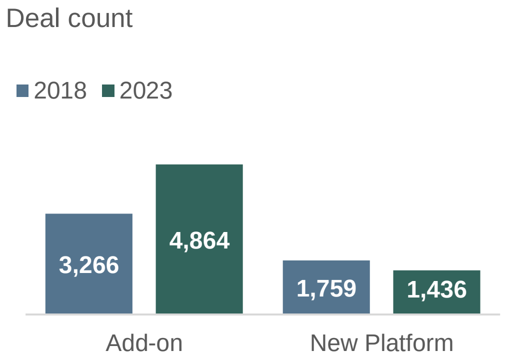
Evolving sources of liquidity

50% increase
… in annual secondary volume



Source: Greenhill, "Global Secondary Market Review, H1 2023." Figures as of December 31, 2023.

75%+
… of new PE deals are add-ons



Source: PitchBook, "US Private Equity Breakdown, 2024 Q1", data as of 31 March 2024.

New York Life Investments

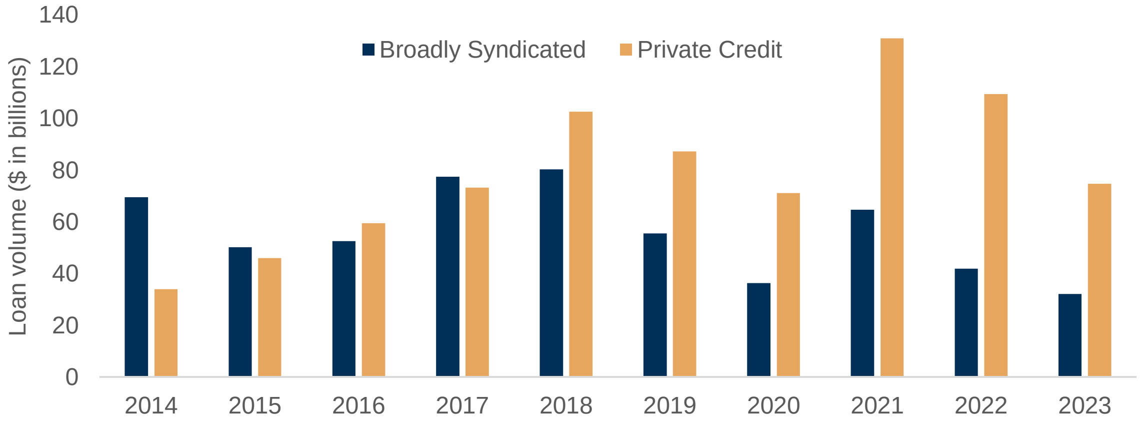
Private credit: the bright side of higher rates

Private credit's risk-return characteristics are, in our view, well suited to the current environment.

- In the last 15+ years, allocation to private credit has grown as (1) bank regulation resulted in banks stepping back from loan making, and (2) "lower for longer" interest rates encouraged more asset allocators to learn about the asset class. Private credit loan volume surpassed the broadly syndicated loan market in 2018, with market share expanding more rapidly in the COVID and high inflation environments of the last few years (**left chart**).
- Despite the growth in commitments to private credit over time, investors remain underweight in this asset class relative to their targets. In fact, the allocation gap has only grown wider in recent years, in contrast to other private asset classes, suggesting investors may commit even more new capital to the asset class just to reach current target, as is explored on the next page.
- Private credit's risk-return characteristics are, in our view, well suited to the current environment. With interest rates at their highest in more than a decade, current yields in the asset class have grown more attractive on both an absolute and relative basis (**right chart**), particularly if higher rates sustain and put downward pressure on public market returns. In our view, the built-in security derived from debt's privileged position in the capital structure also appeals to investors that are wary of market volatility and valuation uncertainty.

Private credit has consistently expanded market share over the past decade

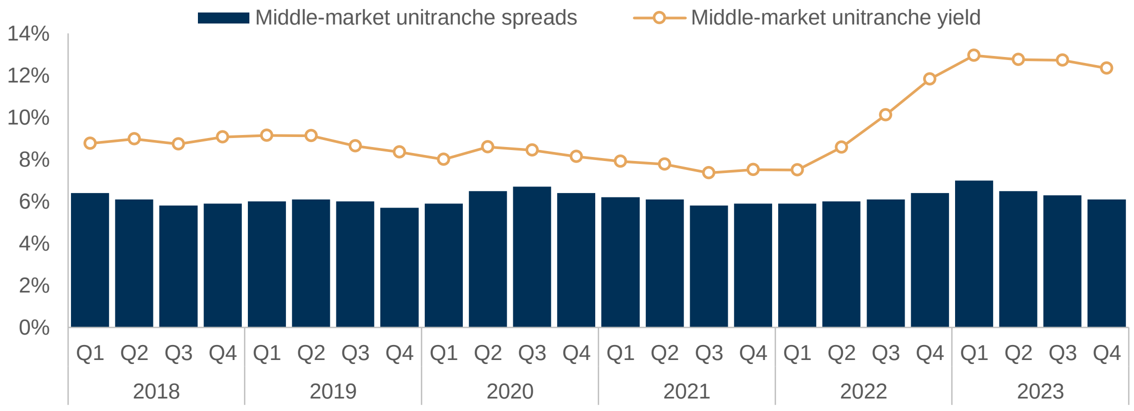
Annual middle market sponsored lending loan volumes



Sources: Apogem, LSEG LPC's 1Q24 US Sponsored Middle Market Private Deals Analysis. Compares middle market sponsored broadly syndicated loans to middle market sponsored broadly direct lending.

Direct lending yields remain elevated, compensating investors well for any risk taken, in our view

Direct lending yields and spreads



Sources: New York Life Investments Global Market Strategy Team, LSEG LPC, May 2024.

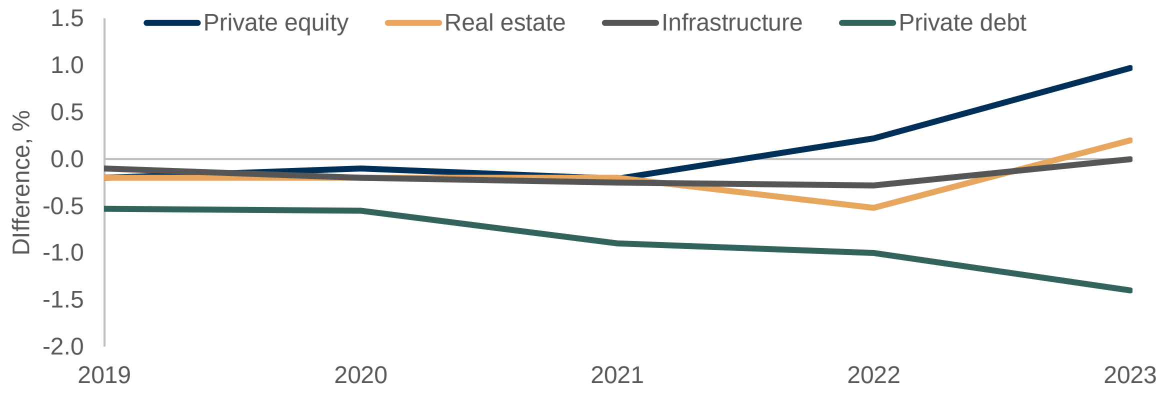
Several factors contribute to sustained growth potential for private credit

Growth in loan demand and loan volume appears to be healthy, not bubble-esque.

- First, private credit assets under management have increased by more than 12% annually since COVID, but remains relatively small in the private markets landscape. Related, average allocations for private credit have fallen behind institutional investor targets (**left chart**), meaning that even catching up to current targets could result in stronger allocations.
- Second, sustained dry powder accumulation in private equity creates a strong potential capital base for private credit deals (**right chart**) in our view.
- Third, we have seen more private credit loans replacing banks and broadly syndicated loans in recent years, particularly in the middle market. Why? Borrower preference. A smaller group of long-term-focused lenders can facilitate workouts during challenging periods that are otherwise more complicated when a syndicate of lenders or banks are involved.
- And finally, the maturity wall of loans and public bonds coming due in the next 2-3 years is likely to create an opportunity for direct lending to step in.

Investors are under-allocated to private credit relative to targets

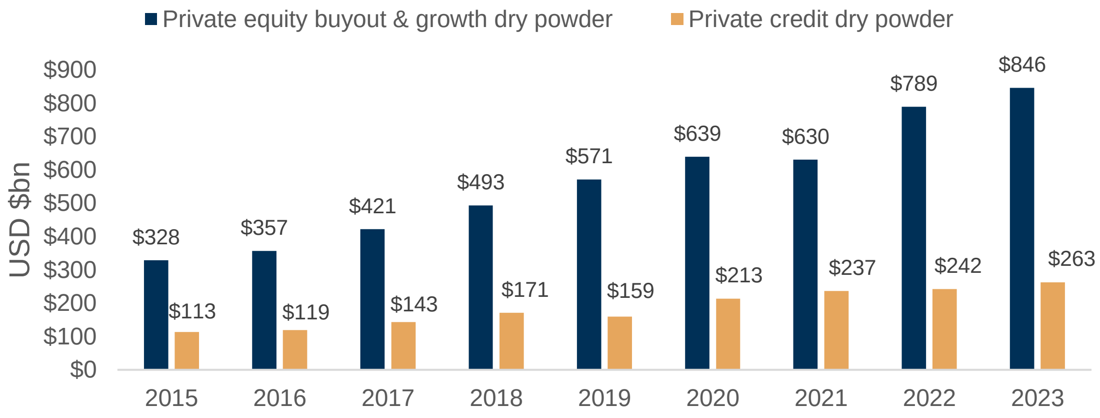
Difference between effective and policy allocations by private markets asset class by year



Source: McKinsey, CEM Benchmarking, 2024. Annual data is shown as of the beginning of each year.

Sustained expansion in private equity dry powder creates, in our view, a strong potential capital base for private credit deals

Dry powder: North American buyout private equity vs. private credit



Source: Preqin, as of December 31, 2023. Data accessed July 2024.

New York Life Investments

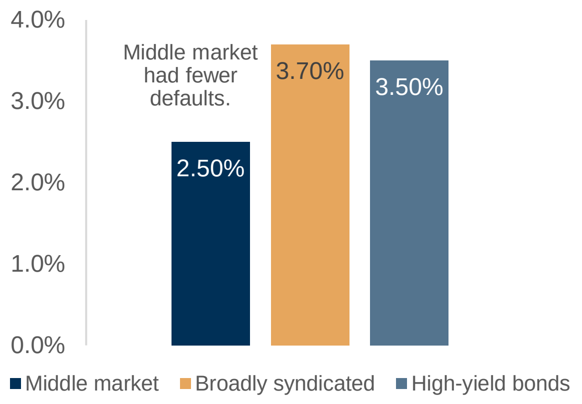
We believe private credit is well positioned to weather any upcoming economic storm

Flexibility between borrower and lender can provide flexibility in troubled times. This has historically been truer in the middle market.

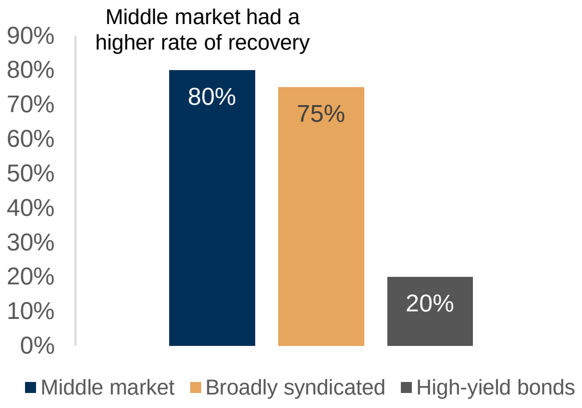
- Direct lending is a long-term investment, with funds often targeting 5, 7, or even 12 years of invested capital. Changes in the macroeconomic environment, and the arrival of unexpected risk, are likely to occur in those time frames. As a result, underwriters work to understand a borrower's demand drivers, cost structure, and sensitivity to impacts to those drivers. This deep understanding of a borrower's creditworthiness helps not only in making the proper security selection and investment structure, but also in the ability to take a proactive stance in supporting borrowers when risks arise. The capital structure, collateral, and covenants that our investors require create room for the risks that arise.
- In the event of a more significant economic slowdown, private credit may be able to navigate the environment more fluidly because the direct relationship between borrowers and lenders can provide higher flexibility. This appears to be even more the case for the middle market. Historically speaking, default rates for middle-market private companies have been lower and recovery rates have been higher when compared to similar asset classes.

Historically, middle market default rates have been lower and recovery rates have been higher when compared to similar asset classes.

Default rate %, 1995-2019



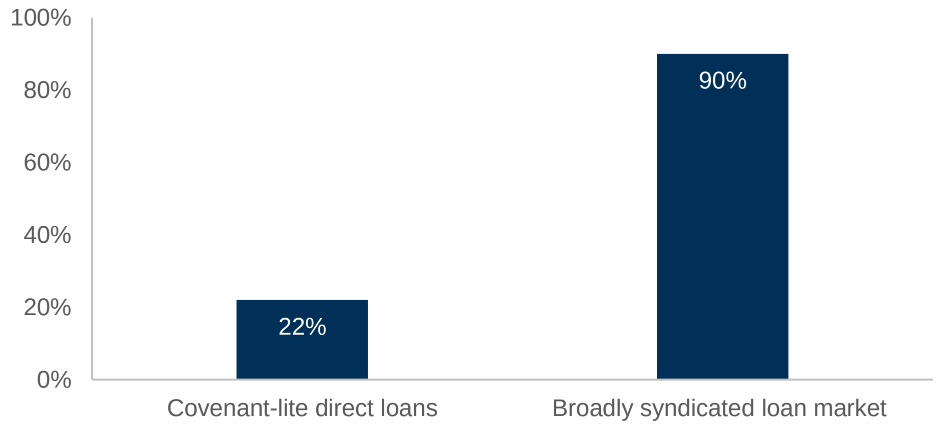
Recovery rates %, 1995-2019



Sources: Mercer S&P Credit Pro, 2021. The "middle market" and "broadly syndicated" market default and recovery rates are calculated by S&P Global Market Intelligence research. High yield bonds are defined by the S&P U.S. High Yield Corporate bond index, which is designed to track the performance of U.S. high yield corporate bonds. Past performance is not indicative of future results. AN investment cannot be made in an index.

Covenant-lite loans are not prevalent in direct lending deals.

% of new deals issued over the last 12 months



Sources: J.P. Morgan Investment Bank, data as of March 2024. Covenant-lite or "cov-lite" loans refer to loan agreements that do not contain the usual protective covenants for the benefit of the lending party.

Real estate: a confluence of global trends

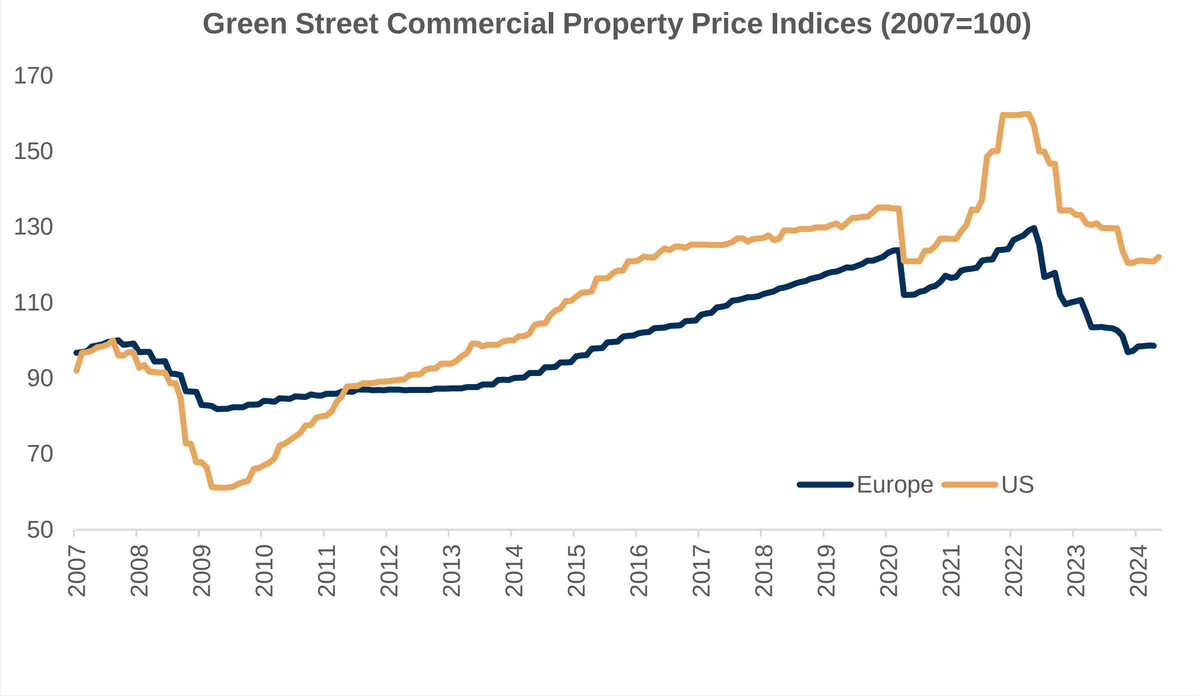
Investors have been focused on disruptions to office, but there are layers of structural factors impacting real estate supply and demand.

Key factors impacting real estate supply and demand

Factor	Description
Cost of capital	Higher interest rates directly influence capitalization rates (cap rates) both by reducing a property's current market value, and by increasing its operating cost through higher commercial mortgage rates.
Economic cycle	Slowing economic activity tends to reduce investor optimism for real estate.
Regulations	Real estate asset performance can be directly driven by national and localized factors such as rent control, environmental mandates, zoning, and transfer tax policy.
Rising costs	The rising cost of materials and labor (including for construction or renovation and operating costs) and capital expenditure (via higher interest rates) increases real estate operator's costs, reducing net operating income.
Sector-specific factors	Property values may be impacted by other trends such as an investor flight to quality, lease timelines, specific supply and demand factors, remote work and hybrid work, and the trend towards e-commerce.

Opinions of NYL Real Estate Investors, July 2024. Capitalization or "cap" rates are calculated by dividing a property's net operating income by its current market value.

In response to global trends, real estate valuations have declined in both the U.S. and Europe



Sources: Tristan Capital Partners, Green Street, July 2024.

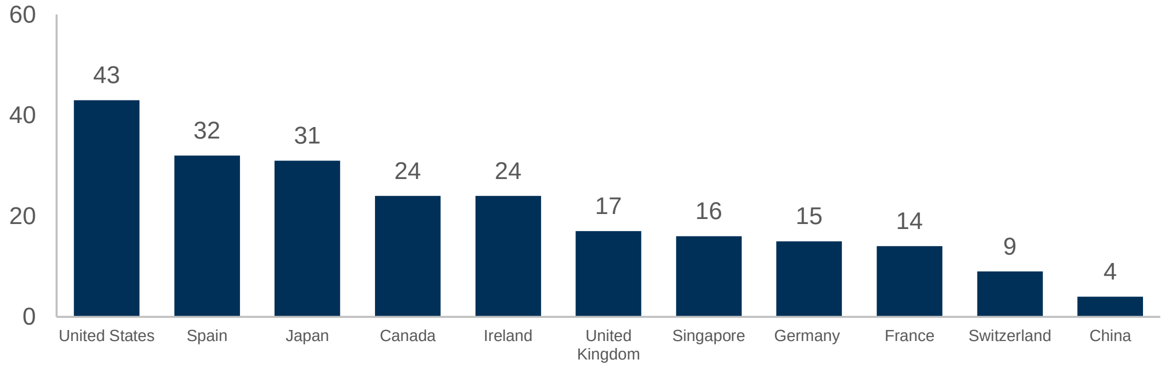
More than just office apocalypse: geographic and sector diversification

Investors have focused on office-related risks, but geographic, sector, and structural divergence create opportunity in our view.

- Commercial real estate (CRE) has experienced a one-two punch in recent years. First came the pandemic, which pushed many white-collar jobs to work at home for a time, a trend that has proven to be sticky in the U.S. Then came the interest rate hiking cycle of 2022-2023, which has impacted capitalization rates and valuations across commercial real estate asset classes. As explored on the previous page, environmental mandates in select jurisdictions, higher operating and higher tenant improvement costs have also impacted the sector.
- The extent of now-empty office space gets much of investors' attention. For example, in the U.S. office values have dropped 39% this cycle, vs -47% in the GFC (Green Street Advisors); Fitch Ratings expects office delinquencies to rise to 9.9% in 2025, surpassing the GFC peak.
- But we see important areas of nuance and resilience among these trends. First, and four years after the pandemic, investors now have concrete data showing that office trends vary meaningfully by country (**left chart**). Within countries, too, there are differences. Using the U.S. as an example, newer class A+ office buildings have outperformed; geographies like south Florida benefited from the migration of corporations, jobs, and people. Finally, structural trends make it such that other areas of commercial real estate have yet to settle out. (**right chart**). In our view, this points to potential opportunity varying by geography and sector.

Divergence within global office markets

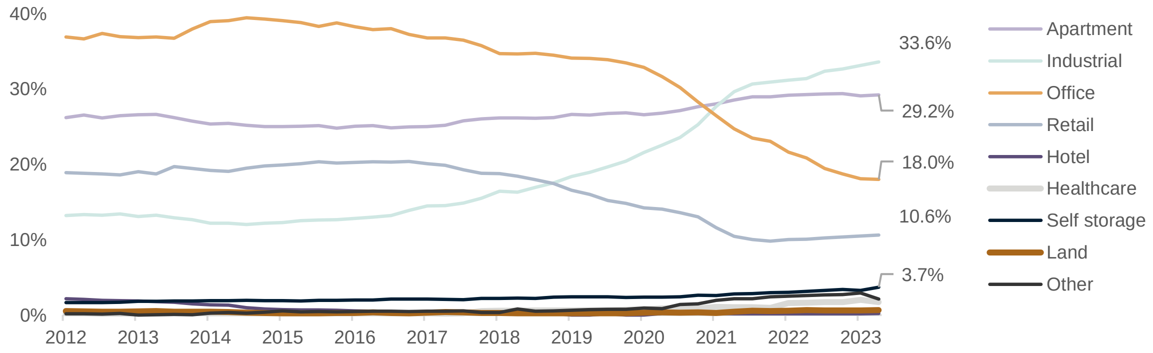
Share of workers who would prefer to never or rarely work in the office (%)



Source: Tristan Capital Partners, Cushman & Wakefield, JLL, Capital Economics, July 2024.

Commercial real estate is a diversified asset class, and performance dispersion has changed sector composition.

U.S. private real estate index weights

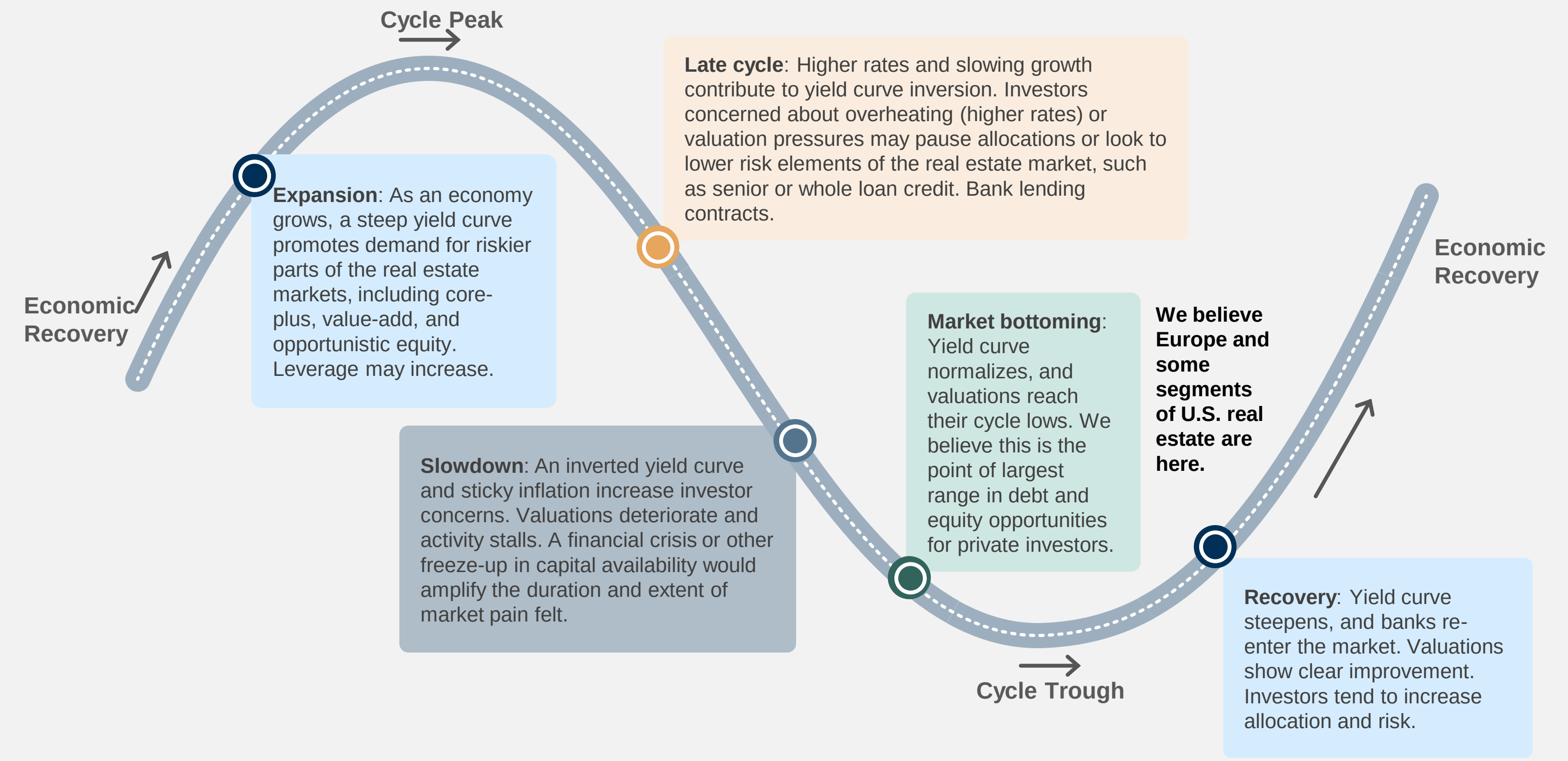


Sources: NCREIF, data accessed June 2024 and available through Q1 2024.

New York Life Investments

Economic conditions point to emerging capital allocation opportunity

A typical economic cycle: Impacts to interest rate expectations and investor allocation



Sources: Opinions of New York Life Investments Global Market Strategy in discussion with Tristan Capital partners, NYL Real Estate, July 2024. For illustrative purposes only. The trough of an economic cycle is the lowest point in economic growth for a country during an economic cycle. A trough does not necessarily mean that there is a recession, but rather depends on the economic cycle.

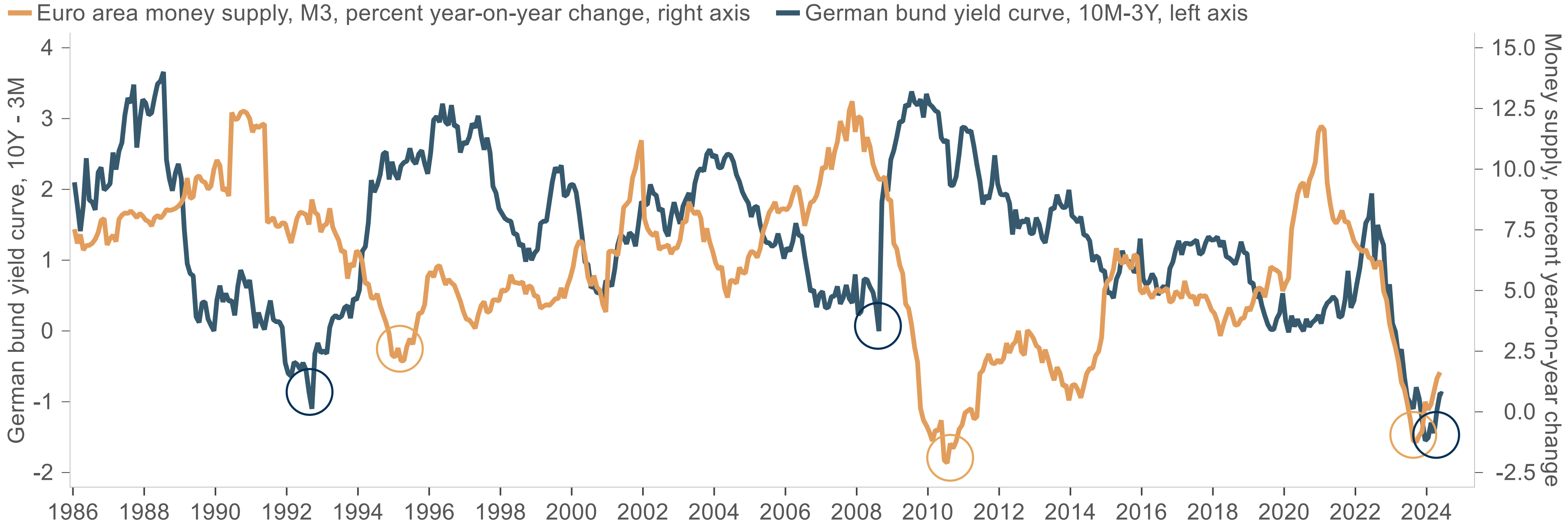
- Real estate valuations are driven by more than just the economic cycle, but capital markets conditions do have a meaningful impact on the timing and nature of investor opportunity.
- We see different countries and regions as being at different phases in their economic cycles – at least temporarily. Large fiscal and monetary supports have resulted in stickier inflation and interest rates in the United States. By contrast, the business cycle in places like Canada and Europe has been less pronounced. As a result, we believe the bottom on real estate valuations may already be in for European markets. In the U.S., by contrast, there is likely still valuation pain to come – especially in the office sector. However there are other reasons to be constructive: several non-office sectors such as industrial, warehousing, senior living, and student living may have already seen their cycle lows.
- Central banks focus on price stability and, in some cases, economic growth. If both hold up in the near term, then interest rate cuts may come more slowly than in past cycles. In our view, this would extend the valuation "bottoming" process in real estate. In our view, this may create an opportunity for debt and equity to perform well at the same time.
- Private investors are also impacted by the entry and exit of bank financing into the system. Bank lending conditions tend to contract as the cycle tops, and only re-enter as the yield curve steepens in recovery. In this cycle, banks may not return to the real estate lending market to the same extent as in previous cycles, due to "Basel III Endgame" provisions increasing the amount of capital banks hold against credit, operational, and market riskiness of their business. All else equal, higher regulatory requirements may reduce bank's willingness or ability to lend into the space, increasing the opportunity for investors with lending skill and a patient capital base.

Europe: the central bank pivot has begun, creating investment opportunity

Calling the bottom in the markets is challenging, but central bank interest rate cuts are a powerful signal.

- Rate cuts have historically contributed to a normalizing yield curve and improvement in private-led credit supply.
- The euro area and United Kingdom business cycles have been less pronounced than the United States, but face similar tradeoffs between high wages and tight credit conditions. The European Central Bank (ECB) began cutting interest rates in June. As a result, and based on historical experience, we believe that a normalization in the yield curve and credit supply is soon to begin.

History of European curve inversions and money supply



Sources: Tristan Capital Partners, Macrobond Financial AB, ECB (European Central Bank), Macrobond, July 2024. M3 is a broad measure of money supply that estimates all of the cash that everyone has in hand, in short-term bank deposits and cash-like securities, in institutional money market funds, in short-term repurchase agreemetns, and in larger liquid assets.

Europe: key themes for investing

Our investors are focusing on opportunities where disruption creates space for value-add.

Macro dynamics of recovery

- **Sticky inflation** due to tight labor markets and less global supply chain flexibility, shortages of critical materials, commodities and energy **might slow speed of cuts**
- **Long term rates already coming down as** economy has slowed and financial conditions should ease but 10-year yields might remain 'high' by post-global financial crisis standards
- **Modest improvement in volumes** likely as the yield curve normalizes and supports credit supply and transaction flows will follow as unallocated equity gets to work

Exploit equity and credit opportunities as the cycle bottoms out

- Target **secular themes** where nominal cashflow growth will be most robust as early cycle plays
- Implies rotating into markets where **demand may significantly outrun supply**
- Look to seize **short-term opportunities in markets where distress is visible**, and forcing creditors to act
- **Debt and equity shortages may persist for some time** as many investors are distracted and may not immediately move to plug the gap

High conviction themes

- **Demographic-led change** across all elements of living, including hospitality
- **Re-globalization** is driving even more demand for logistics/light industrial and manufacturing
- **Innovation** is 'coming home' – driving demand for data, life science and research and development (R&D) assets that meets new needs for power and/or security
- **The more visible impacts of clime change and associated demand for energy efficiency are** driving need for upgrades/improvements to meet net-zero carbon targets, impacting all sectors and major determinant of success in office

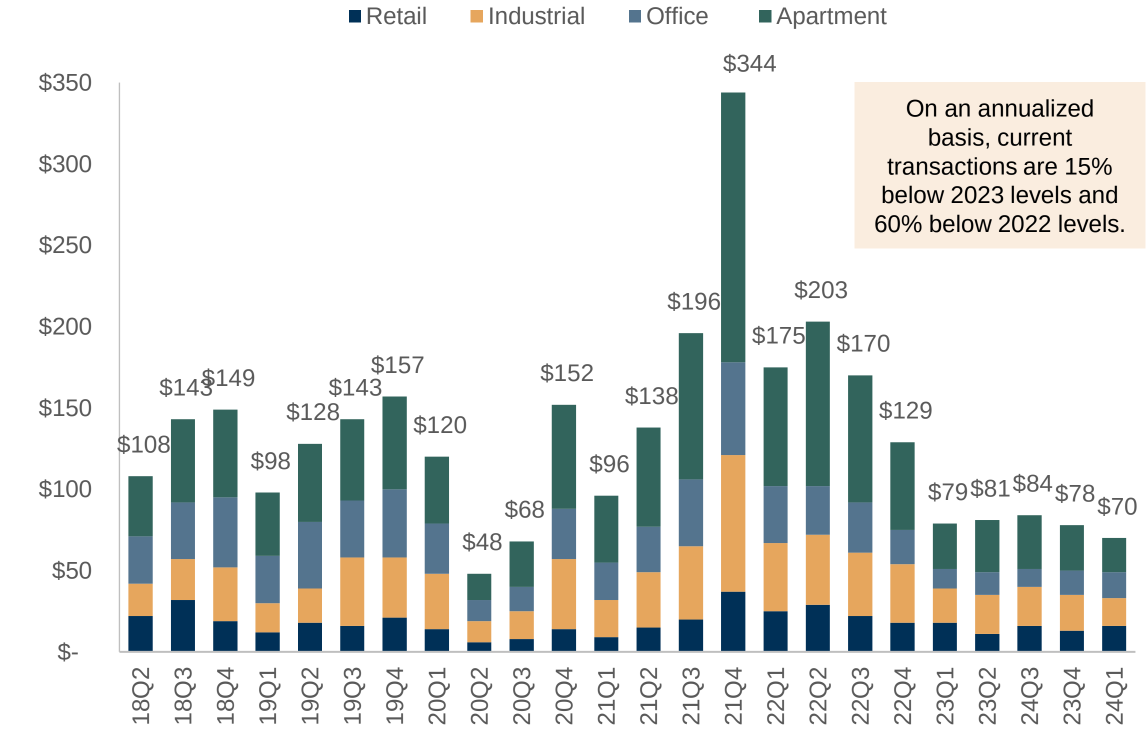
Source: Opinions of Tristan Capital Partners, 2024.

United States: price discovery is still pending

Higher interest rates have slowed transaction volumes, which has negatively impacted price discovery.

Quarterly transaction volume has stabilized at lower levels. We believe this dynamic will persist until owners are forced to mark their assets to market and/or sell.

Quarterly transaction volume declines further in Q1 2024

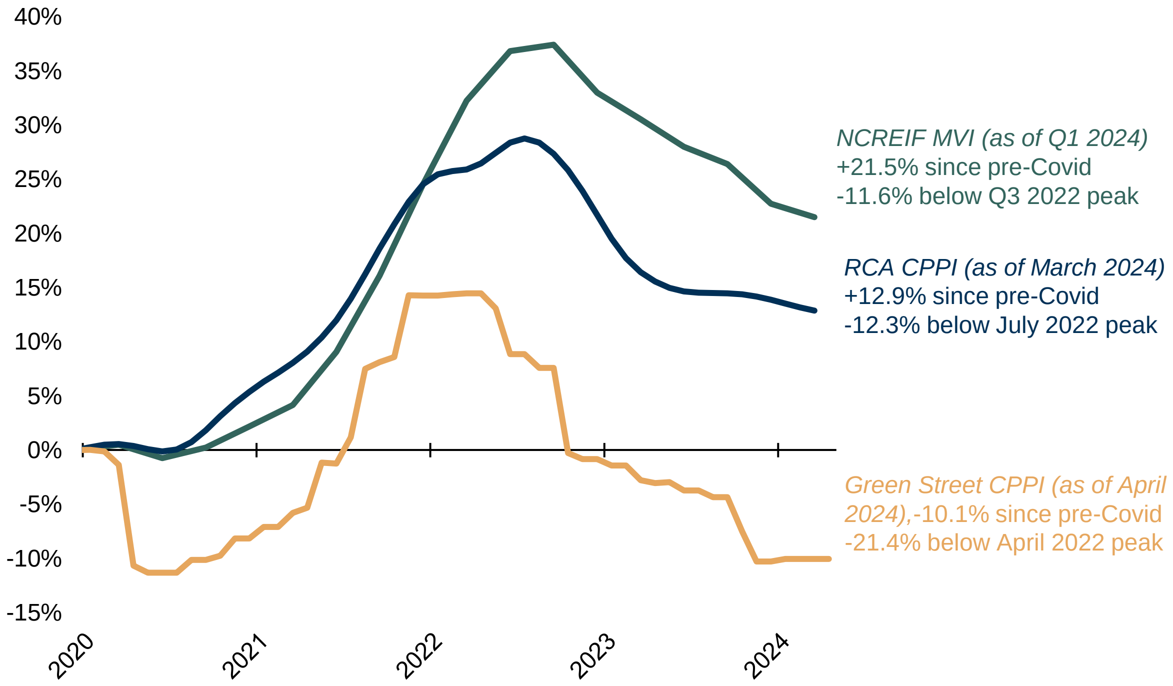


Source: Strategy and Research Group of NYL Real Estate Investors, MSCI Real Assets, data available through Q1 2024.

Valuations vary based on index methodology and may not yet reflect market developments.

Appraisal and repeat-sale indices lag public market proxy

Commercial real estate value indices, all property types, % growth from 2020



Source: Strategy and Research Group of NYL Real Estate Investors , NCREIF Market Value Indices (MVI) quarterly data available through Q1 2024; MSCI Real Capital Analytics Commercial Property Price Index (CPPI) monthly data available through March 2024. Green Street Commercial Property Price Index (CPPI) monthly data available through April 2024.

NEW YORK LIFE INVESTMENTS

United States: regional banking risk has likely stabilized

We are not as concerned with banking stability in the near term:

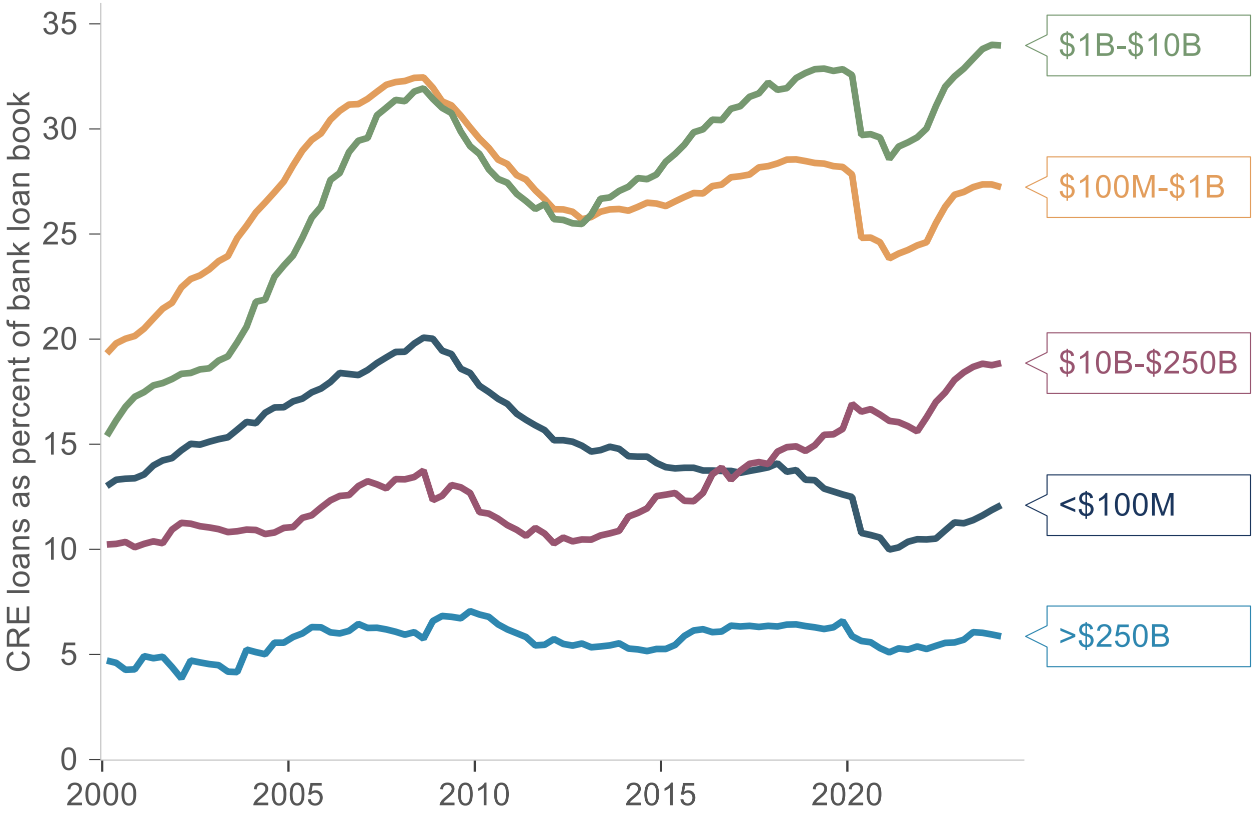
- Commercial real estate (CRE) fears bleed into banking concerns, given small and mid-sized ($100M-$10B in assets) banks' outsized exposure to CRE loans (**chart**).
- Though we believe that portions of the CRE market will see meaningful valuation pressure, particularly under a recession scenario, we see this as a symptom in line with broad economic pressure, rather than a trigger of recession through the likes of a major banking crisis.

This view has four prongs:

- First, the CRE holdings of SMID U.S. banks – those outside of the 25 largest – are less concentrated than feared. SMID banks hold roughly a third of domestic CRE debt, less than the commonly believed 70%.
- Second, other key CRE holders, including life insurers and government sponsored entities, may have enhanced risk management thanks to their equity capabilities, meaning they can potentially step in as subordinate capital providers where necessary.
- Third, there is still dry powder in institutional portfolios to be put to work – about $280 billion, by New York Life Real Estate Investors' internal estimates as of Q4 2023.
- Fourth, ongoing strength in consumer credit could potentially offset any liquidity strain in CRE, particularly for smaller, regional banks that have relatively small individual CRE loan balances relative to consumer credit.

Smaller banks' CRE exposure exacerbates property and banking concerns

Commercial real estate exposure, by bank size



Sources: New York Life Investments Global Market Strategy, Federal Deposit Insurance Corporation, Macrobond, July 2024. M: Millions. B: Billions.

United States: key themes for investing

Market dynamics and portfolio construction benefits create opportunity for real estate investors in our view.

Factor	United States
Attractive return profile	• Annual total unlevered return of 8.21% over 20 years, with best return/risk ratio of the major asset classes[1] • Income return, currently 3.99%, is strong, stable, and constitutes a majority of the total return[2]. Stability of a bond-like income return, even during a weak economy, thanks to in-place leases
Market-specific factors	• Relatively favorable demographics and long-term economic expectations • The market is large (~$15 trillion in 2023 according to CoStar, the largest in the world), allowing for portfolio diversification within the U.S. (46 markets with population in excess of 1.5 million, according to CoStar)
Partial inflation hedge	• As a physical asset, real estate values track with inflation as rising land, labor and material costs make construction more expensive • Operating expense increases can be passed through to tenants in many cases • Mark-to-market for short-term leases (e.g., apartments) and rent steps for longer-term leases (e.g., other property types)
Portfolio diversification	• Low correlation with other asset classes • "Too big to ignore" in a market-neutral portfolio: Commercial real estate (CRE) is ~10% of the investable universe in the U.S.
Manager value add	• Semi-inefficient market • Localized managers with extensive experience may add value in info, relationships, etc.

Identifying investment opportunity

- **In equity:** where good sponsors, or investors with otherwise good assets, are facing a challenged capital stack, investors can consider providing liquidity.
- **In credit:** banks are still on the sidelines. Careful lenders can therefore potentially take advantage of higher interest rates and lower valuations.
- **Sourcing:** managers with strong relationships may be able to source deals off market that are not competitively bid, improving return potential.
- **Bottom line**: investors who can play across the risk spectrum and up and down the capital stack may see meaningful opportunities across real estate asset classes in the coming quarters. Higher rates have led to a stronger focus on real estate credit in recent years, but as prices bottom – which is already happening in several real estate sectors in our view – investors will likely have more conviction about equity investing as well.

Sources: Opinions New York Life Real estate Investors, reviewed July 2024. Footnote 1. NCREIF NPI Index–All Properties Unlevered Total Return: 8.21% total return/5.14% standard deviation/1.60 return/risk ratio, Bloomberg U.S. Corporate Bond Index Total Return: 3.90%/6.44%/0.61, Bloomberg U.S. Treasury: 5-10 Year Index Total Return: 3.06%/6.29%/0.49, Bloomberg U.S. CMBS Investment Grade Index Total Return: 3.32%/6.95%/0.48, S&P 500 Index Total Return: 10.04%/15.85%/0.63, S&P U.S. REIT Index Total Return: 8.52%/22.56%/0.38, MSCI World Equities ex U.S. Index Total Return: 7.14%/18.40%/0.39. Foornote 2. 4-quarter unlevered property-level income return of the NCREIF NPI Index–All Properties through 6/30/23.

Real assets: structural themes are driving higher demand

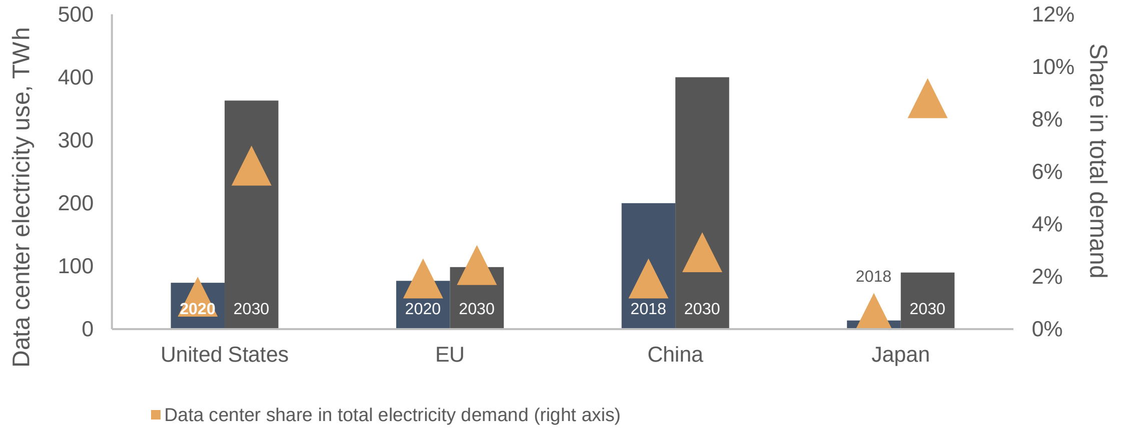
Global transitions towards digitization, electrification, and supply chain re-globalization are likely to increase demand for real assets.

- A real asset is a tangible investment that has an intrinsic value due to its physical properties. The real assets category typically includes real estate, infrastructure, and natural resources. Having already discussed the first, this section focuses on the latter two categories.
- The ongoing economic and political transitions toward electrification, digitization, and supply chain re-globalization are not new, but they are increasingly central to investment opportunity. Trends such as these have been driving higher utilization rates and capacity expansion for many businesses, increasing the scarcity value of these assets and mitigating potential cyclicality. In our view, such global shifts will require a size and consistency of capital dedication that the world has not often seen outside of wartime.

Digitization will require extensive new power supply.

The International Energy Agency (IEA) estimates global electricity consumption of data centers could double to 1000TWh by 2026, roughly equal to adding the electricity consumption of Germany in just a few years. Half of this expansion could take place in the U.S. and China.

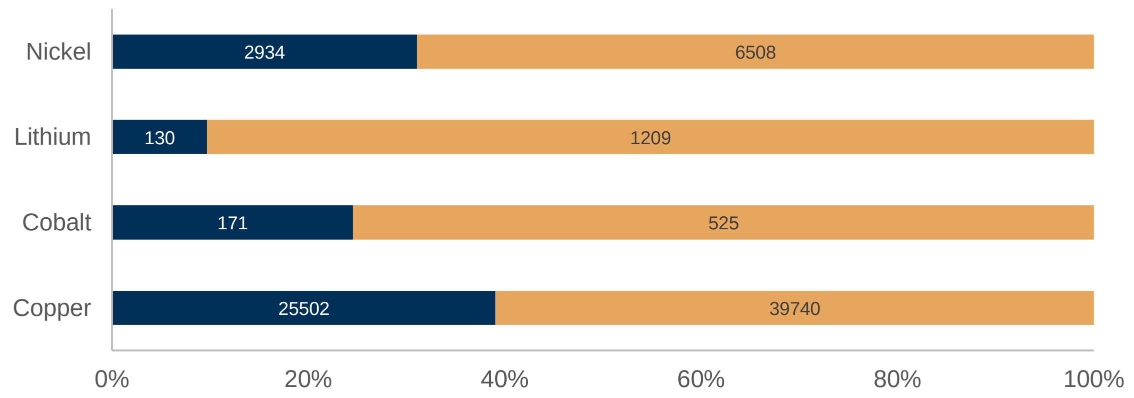
Data center power use and share in total national electricity demand



Energy transition will require extensive materials.

Raw materials production may not be sufficient to achieve an energy transition with current technology. Innovations in processing and recycling will be essential to meet global needs in the coming decades. In the meantime, materials demand appears poised only to increase.

Sharp increase projected in demand for metals required to fuel the neergy transition



Sources for left hand chart: New York Life Investments Global Market Strategy, International Energy Agency, CBRE Investment Management, European Commission, China's State Council, Japan Science and Technology Agency, S&P Global, U.S. Energy Information Administration, June 2024. TWh = terawatt hours of electricity. Sources for right hand chart: New York Life Investments Global Market Strategy, U.S. Energy Administration, International Energy Outlook 2023.

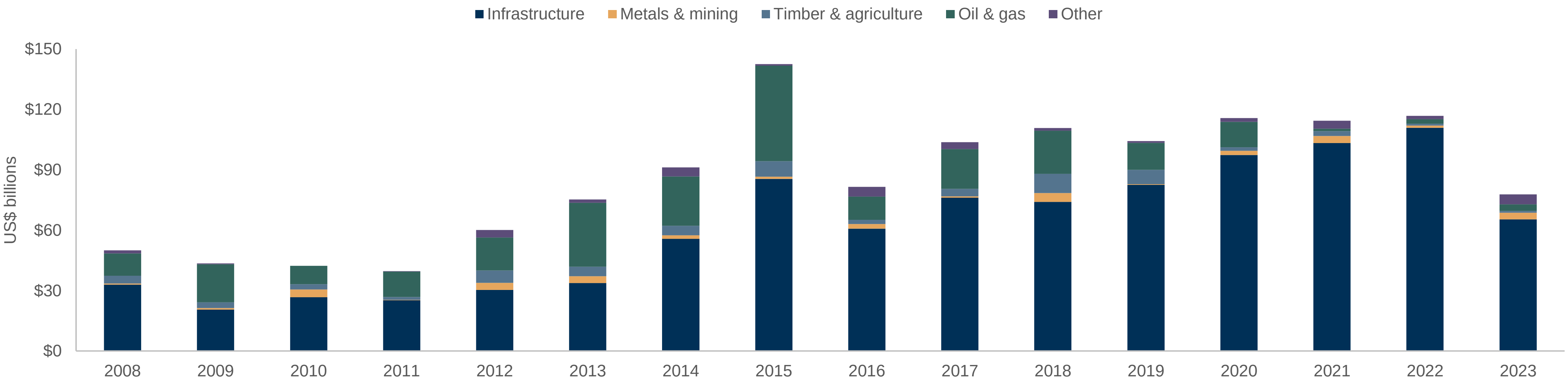
Infrastructure now represents an independent allocation category

We believe that demand for infrastructure may drive flows in listed equity, bonds, as well as private assets including private equity and demand for loans.

- In our view, global transitions, and particularly the digitization and artificial intelligence trends, are likely to achieve their daunting infrastructure requirements. Why? These trends benefit from several common ingredients to a timely, successful infrastructure buildout: corporate leadership in the space drives spending; public funding, due to the threat of being left behind in the global economy, is likely to persist; and use of digital tools promises to be nearly universal for those with access. This combination of factors is likely to drive sustained public and private demand for infrastructure assets.
- Investors' approach to adding real assets exposure varies. However, we are increasingly working with clients who allocate as much as 10% of their aggregate portfolio to infrastructure exposure, and up to 7% of their portfolios to commodities and real assets.

Real assets capital raised has been predominantly in infrastructure

Real assets capital raised, US$ billions



Source: New York Life Investments Global Market Strategy, PitchBook, "2023 Annual Global Private Market Fundraising Report ", data complete through end of year 2023.

GLOBAL PRIVATE MARKETS OUTLOOK

Deep dive

A case for investing in the lower middle market

We believe the lower middle market presents a global private opportunity

Investors may benefit from focusing on less efficient parts of the market; this lower middle market is one such opportunity in our view.

- Private markets have reached a considerable $13 trillion in size across asset classes. Still, they remain a small portion – just 5% – of the total investable market. At the same time, higher interest rates have increased the yield opportunity across asset classes – including public market asset classes.
- In response, we believe investors should focus on areas of the market that are less efficient, or where return characteristics cannot be as easily achieved in public markets. We believe the lower middle market of private equity and private credit to be one such opportunity – and one that is particularly attractive at the capital markets turning point investors may be facing today.

Our case for the lower middle market

What is the lower middle market (LMM)?

- The lower middle market is typically defined as companies with $250 million in enterprise value, or private equity funds with less than $750 million in assets under management. The middle market is typically larger, with up to $500 million in enterprise value. Large companies are typically those with $1 billion or more in enterprise value.
- The number of companies is much larger than for large companies, providing a deeper pool of acquisition opportunities.
- Companies tend to be family or founder owned, such that investment is typically the first institutional capital applied to the company's business.
- Investors can focus more holistically on value creation through business building, rather than focusing on financial engineering as is typical in larger parts of the market.

Benefit	Description
Competitive resiliency	The lower middle market offers an attractive supply-demand imbalance, with a large number of potential target companies and lower fundraising volume. The supply-demand imbalance has resulted attractive entry valuations, with smaller companies trading at a discount to larger companies, historically. Deep pools of capital available to potential acquirers, such as corporate strategic acquirers and large/mega private equity funds, can result in consistent exit opportunities. Lower issuance and declining bank loan volume creates need for private financing in credit markets.
Economic resiliency	Lower middle market funds have historically outperformed larger segments over the long-term, including in high interest rate environments and high inflation environments. Contrary to common belief, company size explains only 6% of default frequency, whereas higher leverage, which is a key characteristic of larger funds, is the largest factor explaining expected default frequency.
Portfolio resiliency	Lower middle market, middle market, and large & mega funds can offer diversification benefits and complementary exposure when paired together.

Opinions of New York Life investments, July 2024. For illustrative purposes only.

An attractive supply-demand dynamic (1/2)

Our constructive view on LMM opportunities is driven by a deep pool of companies with limited financing options compared to larger markets.

Number of companies	Segment	EBITDA	Debt financing options: Low leverage bank loans	Syndicated lev. loans	High yield bonds	Private debt
500–1,000	Large caps	$/€100+m	✓	✓	✓	✓
5,000–10,000	Middle market	$/€50–100m	✓	✓	✓	✓
25,000–50,000	Lower middle market	$/€5–50m	✓	✗	✗	✓
100,000–300,000	SMEs	$/€0–5m	✓	✗	✗	✗

Sources: Kartesia, Campbell Lutyens, 2024. Estimates for the number of companies and EBITDA are for either the U.S. or European economies. EBITDA is earnings before interest, tax, depreciation, and amortization.

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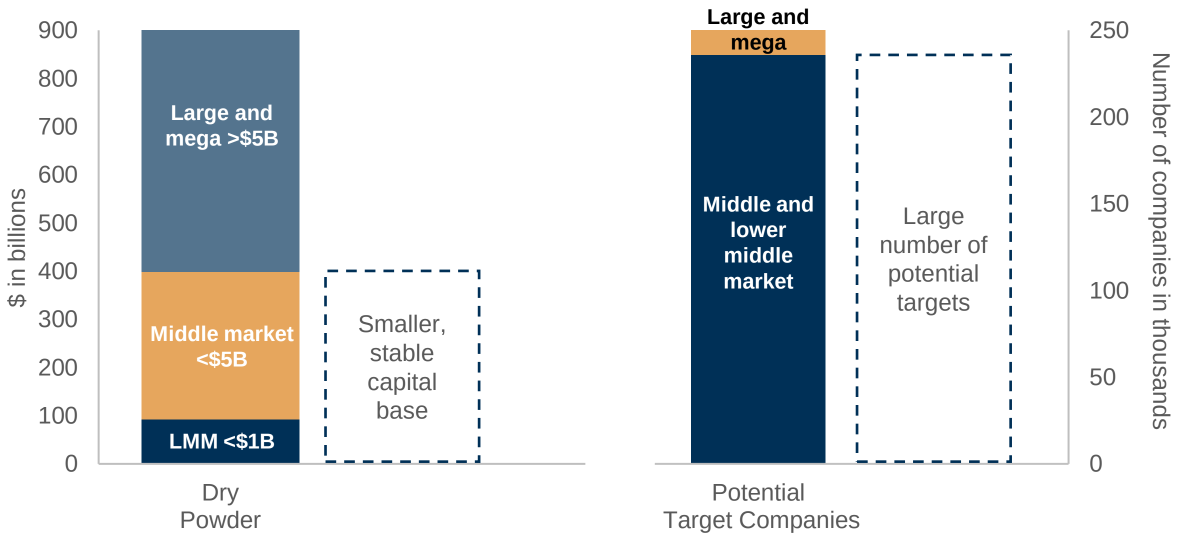
An attractive supply-demand dynamic (2/2)

Imbalance in the capital raised and number of potential target companies has resulted in attractive entry valuations, historically

- Large and mega private equity funds hold a majority of private equity dry powder, but there are many fewer large and mega companies to capture that capital demand. By contrast, the middle market, and especially the lower middle market, have historically had a smaller, stable capital base and a larger number of companies as available targets. This combination has historically resulted in lower competition, lower relative entry multiples and, in our view, a larger opportunity for adding investor value.

Favorable supply-demand dynamics in the middle market…

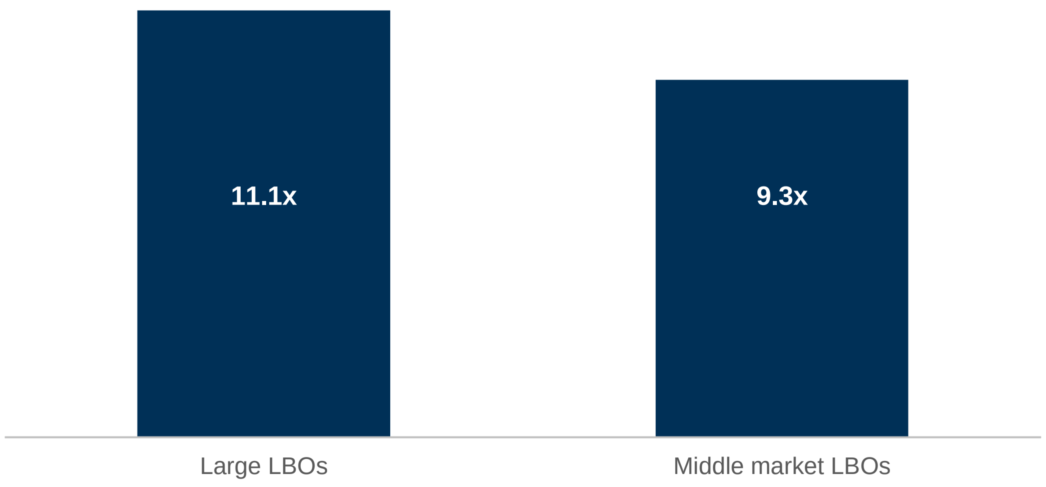
North America private equity dry powder by market segment vs. number of potential targets



Sources: Apogem. Data for dry powder comes from PitchBook. Includes US and Canada-based buyout and growth funds. Represents dry powder as of year-end 2023. Accessed May 2024. Data for potential target companies comes from Capital IQ as of December 31, 2023. Analysis includes estimated number of North American (US and Canada) companies. Middle Market company targets defined as companies with $5 million to $250 million in revenues. Large and mega company targets defined as companies with > $250 million in revenues.

… drive lower relative entry multiples

Purchase multiples by market segment



Sources: Apogem, as of December 31, 2023. Includes average annual purchase multiple for transactions from January 2019 to December 2023. Source for Large Market LBO Purchase Multiples: PitchBook, LCD, "US LBO Debt Quarterly Trend Lines, April 2024." "Large LBOs" defined as transactions > $500M. Source for Middle Market Purchase Multiples: GF Data's "GF Data M&A Report May 2024." Includes an average of transactions from $50 million to $500 million.

A high-growth market segment of the private markets universe

Lower middle market companies have historically experienced faster growth, providing a compelling potential opportunity.

CHART 1

Lower middle market and middle market companies have historically grown faster than larger companies…

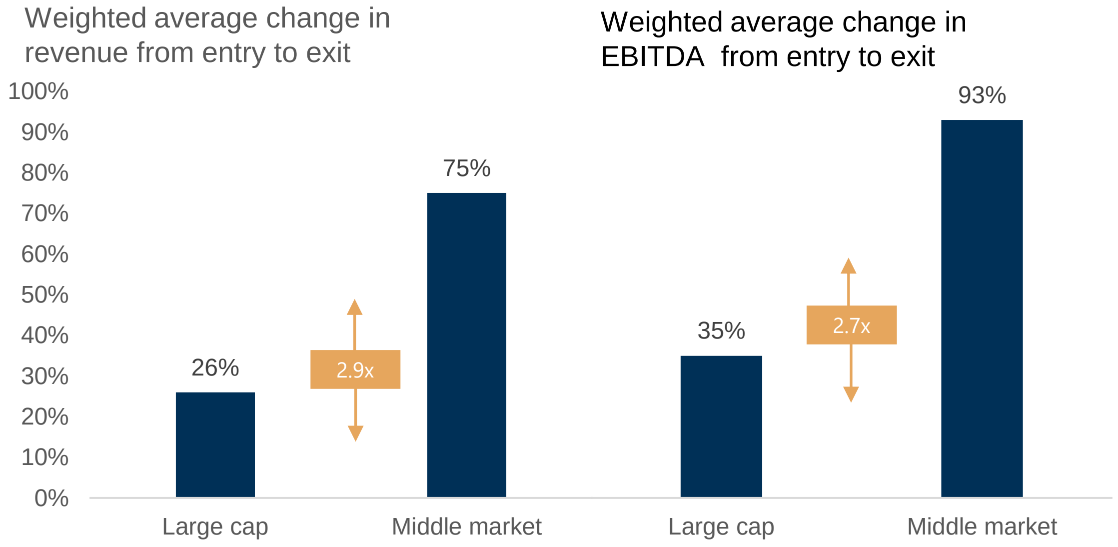


CHART 2

… and have historically offered a more compelling valuation multiple vs. large cap companies...

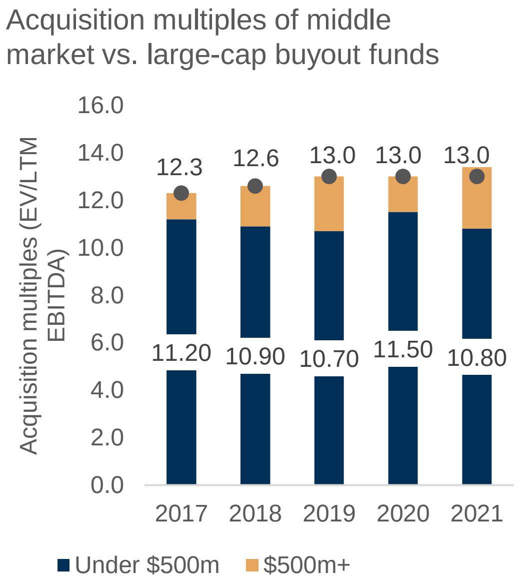
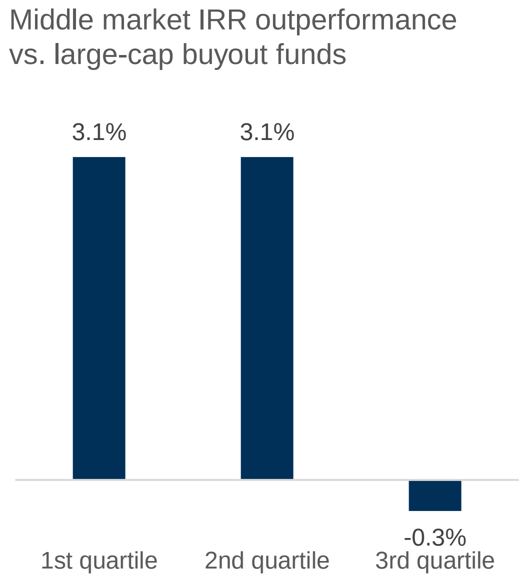


CHART 3

… resulting in a historical outperformance of returns compared to large-cap buyout funds.



Sources:

CHART 1: Kartesia, Morgan Stanley Investment Management database of transaction level information, including only U.S. deals and excluding Morgan Stanley transactions. Represents a sample of portfolio companies that report on EV, Revenue, EBITDA, Net Debt, Public/Private Company, with data as of June 30, 2023; Morgan Stanley analysis as of September 2023. Given the sample universe and size, there is potential for selection bias. Middle market is defined as transaction value (TEV) of $500m or less. Sample includes 166 total transactions – 37 large caps and 129 middle market. Analysis excludes outliers.

CHART 2: Kartesia, FactSet data as of 31 August 2022. Represents all announced acquisitions globally. IRR indicates internal rate of return.

CHART 3: Preqin database, retrieved 31 August 2022. Represents query of pooled net fund returns in Cambridge database from new private equity funds closed 1 January 2010 to 31 December 2019 across 653 funds. Net IRR here represents the 75th percentile (1st quartile), 50th percentile (2nd quartile), and 25th percentile (3rd quartile) of self-reported internal rates of return to the limited partners net of all management fees, carried interest, and other fund expenses.

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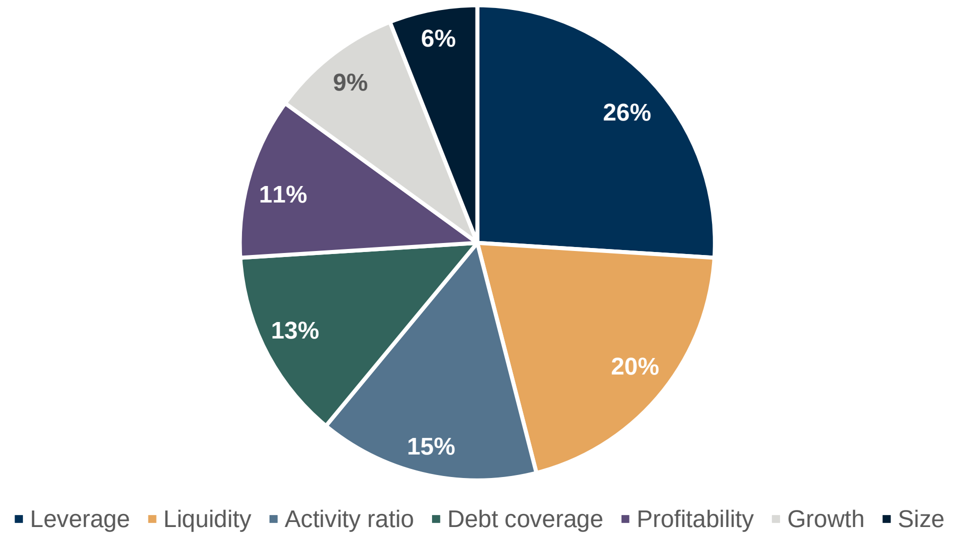
Historically, size has been the *smallest* contributor to company risk

Contrary to common belief, the impact of company size on expected default rate is minor compared to leverage, a key trait of larger funds.

- Investors have sometimes expressed concern that the lower middle market segment of private credit and private equity are riskier than other segments. For experienced investors, this need not be the case. Opportunities related to investor positioning, the large universe of quality companies, a relationship-driven market, and attractive yield (all illustrated in this section) leave us confident in the opportunity for this segment.
- To quantify this view: Moody's research has identified seven factors that explain expected loan default frequency (in %, weighing factor identified by Moody's).
  1. Leverage (capital structure): 26%
  2. Liquidity: 20%
  3. Activity ratio: 15%
  4. Debt coverage: 13%
  5. Profitability: 11%
  6. Growth: 9%
  7. Size: 6%
- Size is one of the seven factors, but ranks as the least significant factor, with a weight of only 6% out of 100%.
- This Moody's research finding supports the view that lending to small companies is attractive if one hold the standards high on credit fundamentals.
- The report is based on a detailed quantitative study of default history across a large data set of borrowers over a time period of 16 years (1994-2010) that includes the 2008 Financial Crisis.

Outperformance potential in periods of low general market return

Factor contribution to loan default frequency



This data set:

- *Covers more than 133,000 individual borrowers with over 9,000 defaults*
- *Includes borrowers in the lower middle market size range and also larger borrowers*
- *Was provided by large national banks (eg Bank of America, Wells Fargo) and regional banks (e.g. US Bank, Fifth Third Bank, &T Bank, Citizen's Bank, etc.)*

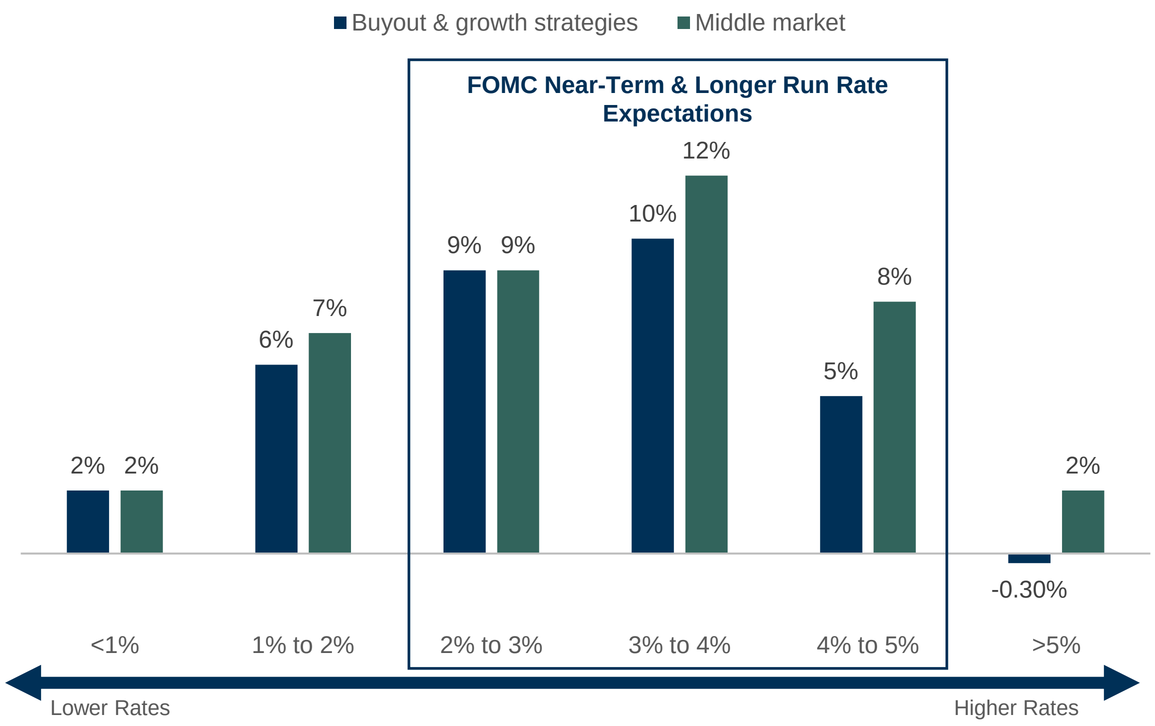
Source: New York Life Investments, Kartesia, Deerpath Capital; Moody's Analytics RiskCalc 4.0 U.S., April 30, 2012; Campbell Lutyens. The Activity Ratio includes Inventory/Sales, Current Liabilities/Sales, Change in Working Capital/Sales.Debt Coverage defined as EBITDA/Interest Expense.

Middle market private equity has tended to outperform the market amid risk

In both higher interest rate and lower public equity return environments, the middle market has historically outperformed.

Outperformance potential in elevated rate environments

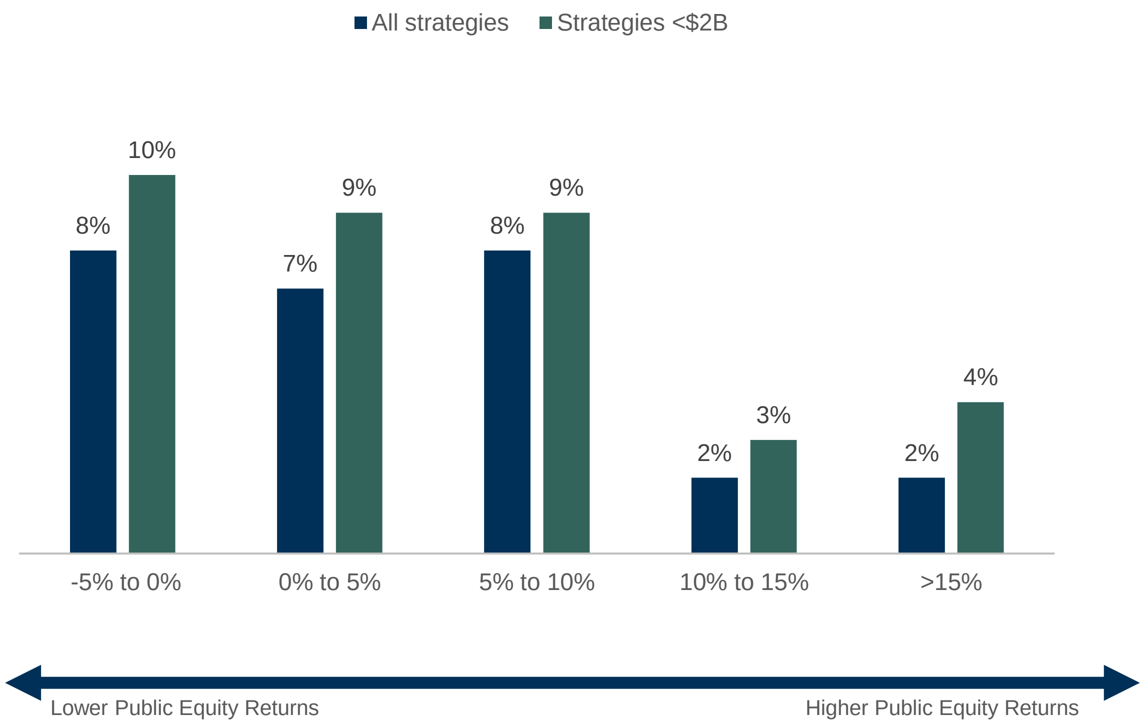
Buyout and growth strategies historical outperformance vs. S&P 500
Average 5-year excess return by interest rate environment



Sources: Apogem, Cambridge Associates. Includes North America Buyout and Growth funds, data through December 31, 2023.

Outperformance potential in periods of low general market return

Buyout and growth strategies outperformance vs. S&P 500
Average 5-year excess return by S&P500 return environment



Sources: Apogem, Cambridge Associates. Includes North America Buyout and Growth funds, data through December 31, 2023.

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Potential portfolio construction benefits of lower middle market exposure

Funds of all sizes can offer diversification and complementary exposure, but the lower middle market has historically outperformed.

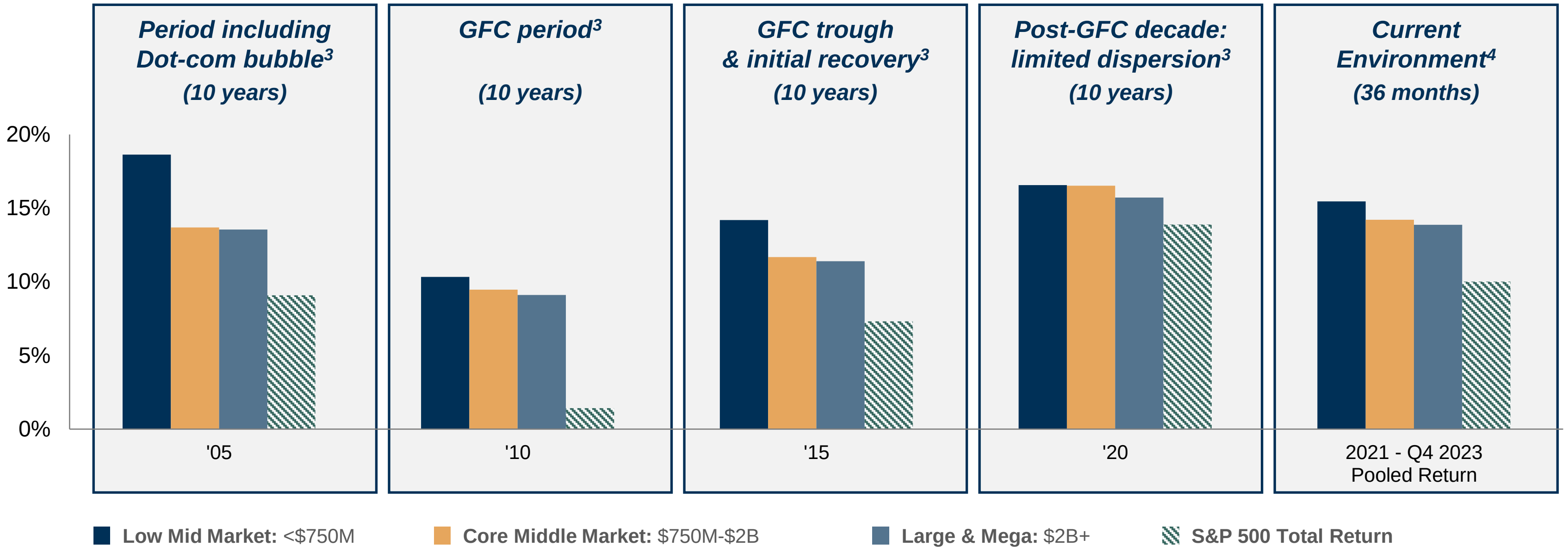
- While lower middle market, middle market, and large & mega funds can offer diversification and complementary exposure, the lower middle market has historically outperformed more frequently over the long-term (**table**). And, after a decade of relatively low dispersion between fund types, returns have begun to diverge as economic uncertainty and volatility increased, with lower middle & middle market funds outperforming large & mega peers (**chart**).

Outperformance potential

Time Period[1,2]	Frequency of LMM Outperformance
1-year	39%
3-year rolling	52%
5-year rolling	57%
10-year rolling	87%

After a period of low dispersion, economic uncertainty and volatility may be bringing outperformance potential

Pooled buyout and growth performance by fund size



Sources: Apogem. 1. As of December 31, 2023. Source: Private equity returns as per Cambridge Associates. S&P 500 Total Return Index as per Bloomberg. 2. Outperformance of LMM defined as higher IRR for LMM funds in each period relative to Middle Market and Large & Mega funds. Represents returns for period referenced as of year-end for each year from 2000 to 2022 (2023 performance as of December 31, 2023). 3. Represents 10-year performance as of December 31 for each year. 4. Represents 3-year performance as of December 31, 2023

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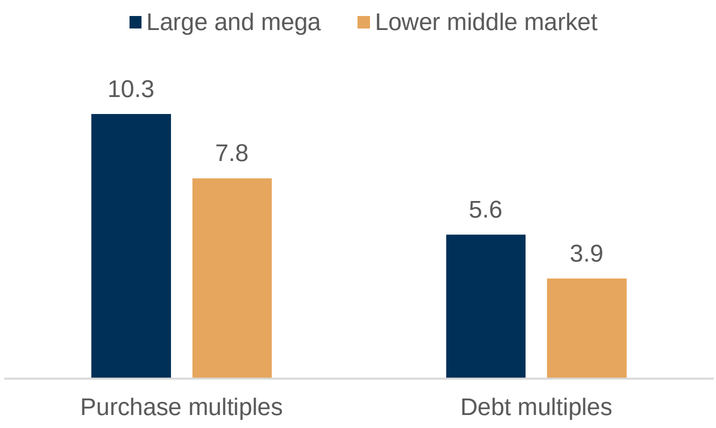
In U.S. private equity: historical valuation, performance, and correlation benefits

We believe the lower middle market provides significant potential benefits in terms of outperformance potential and portfolio diversification.

Potential benefits of the middle market in portfolio construction: the example of private equity

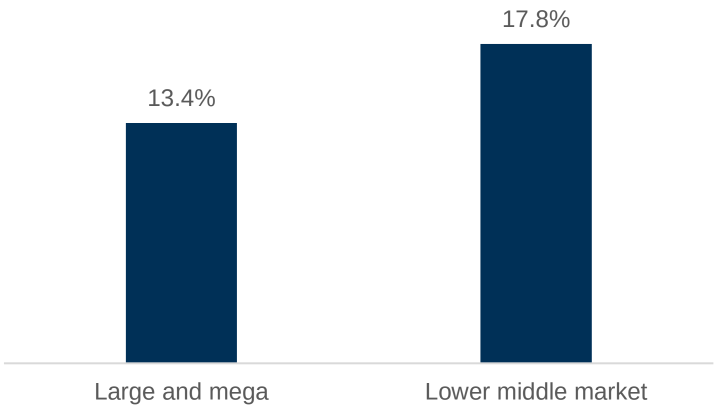
Below-market entry points to date

Entry multiples by size [1]



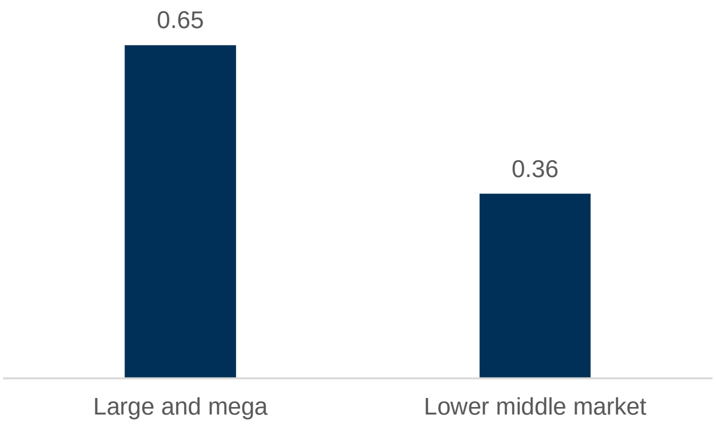
Significant historical outperformance

Returns by fund size [2,4]



Lower correlation to public markets

Correlation to S&P 500 by size [3,4]



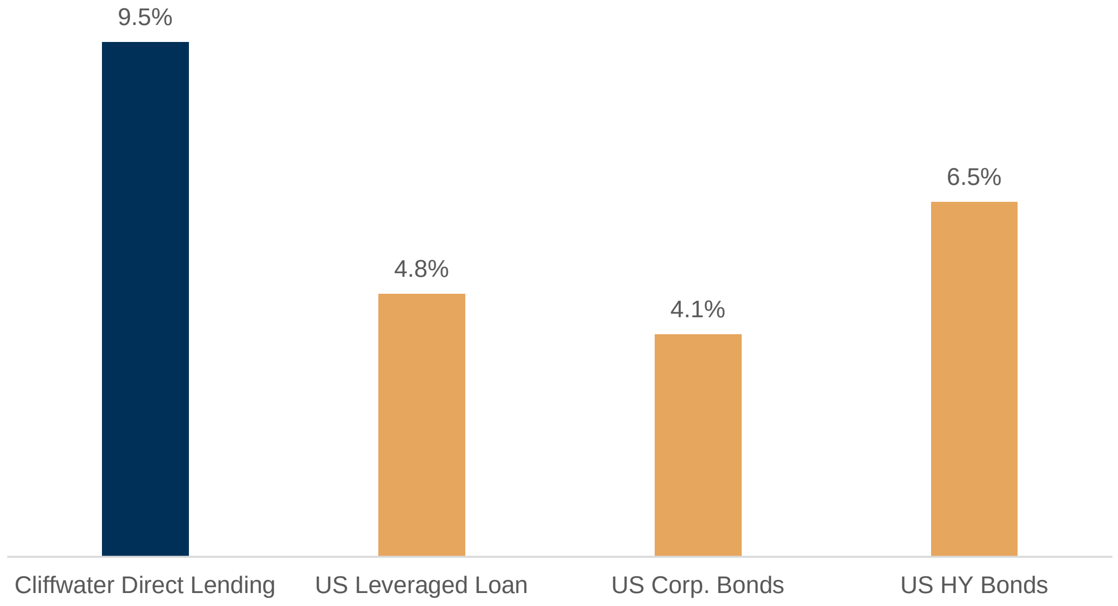
Sources: Apogem Capital, 2024. 1. As of September 30, 2023. Includes transactions from January 2011 to September 2023. Source for Large Market LBO Purchase Multiples: LCD Leveraged Buyout Review - 3Q'23, S&P Global Market Intelligence. "Large LBOs" defined as transactions > $500M. Source for Large Market Debt Multiples: LCD Quarterly Leveraged Lending Review - 3Q'23, S&P Global Market Intelligence. "Large LBOs" defined as issuers with EBITDA > $50M. Source for LMM Purchase Multiples: GF Data's "GF Data M&A Report November 2023." Source for LMM Debt Multiples: GF Data's "GF Data Leverage Report November 2023." Includes deals between $50M and $100M. 2. Source: Cambridge Associates pooled average returns since 1986 for North America based buyout and growth funds as of June 30, 2023. 3. As of June 30, 2023. Source: Cambridge Associates. Refers to US buyout funds in vintage years 1997 to 2023. Correlation is calculated using quarterly returns for public indexes and quarterly IRRs provided by Cambridge Associates. 4. "Lg / Mega" defined as funds > $750M. "LMM" defined as funds < $750M." Past performance is no guarantee of future results.

In U.S. direct lending: historically higher returns and lower volatility

Over the last 20 years, U.S. direct lending has delivered higher returns with lower volatility than public market credit.

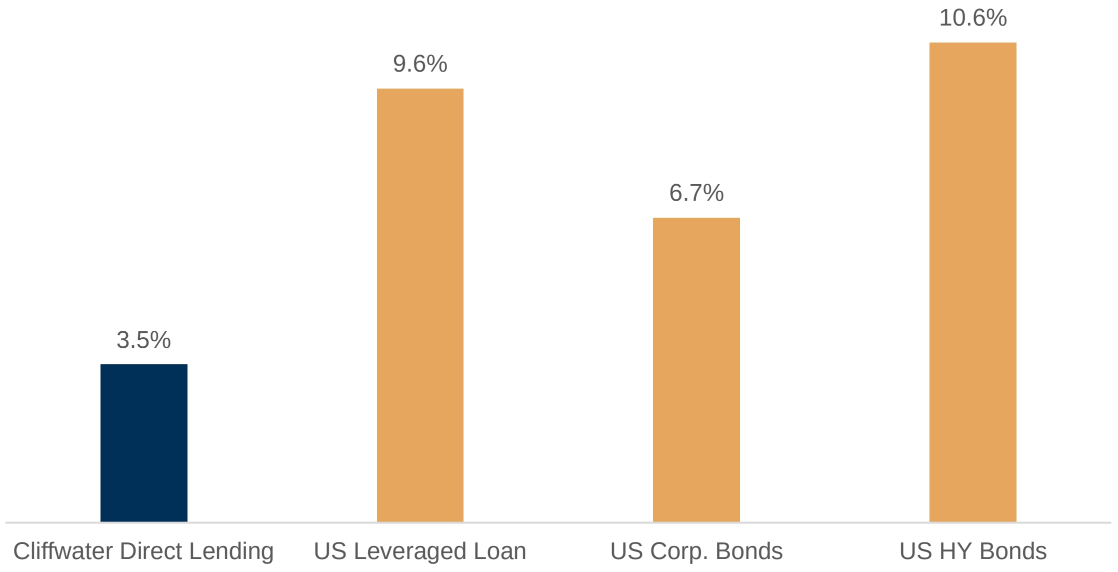
Attractive return potential

Annualized return by asset class, 2004-2023



Lower historical volatility

Annualized volatility by asset class, 2004-2023



Sources for both charts: Apogem analysis. Direct lending returns are sourced from Cliffwater Direct Lending Index. Source for public credit returns (leveraged loan, corporate bonds, and high yield bonds) is Bloomberg. Data through December 31, 2023. Past performance is not a guarantee of future results.

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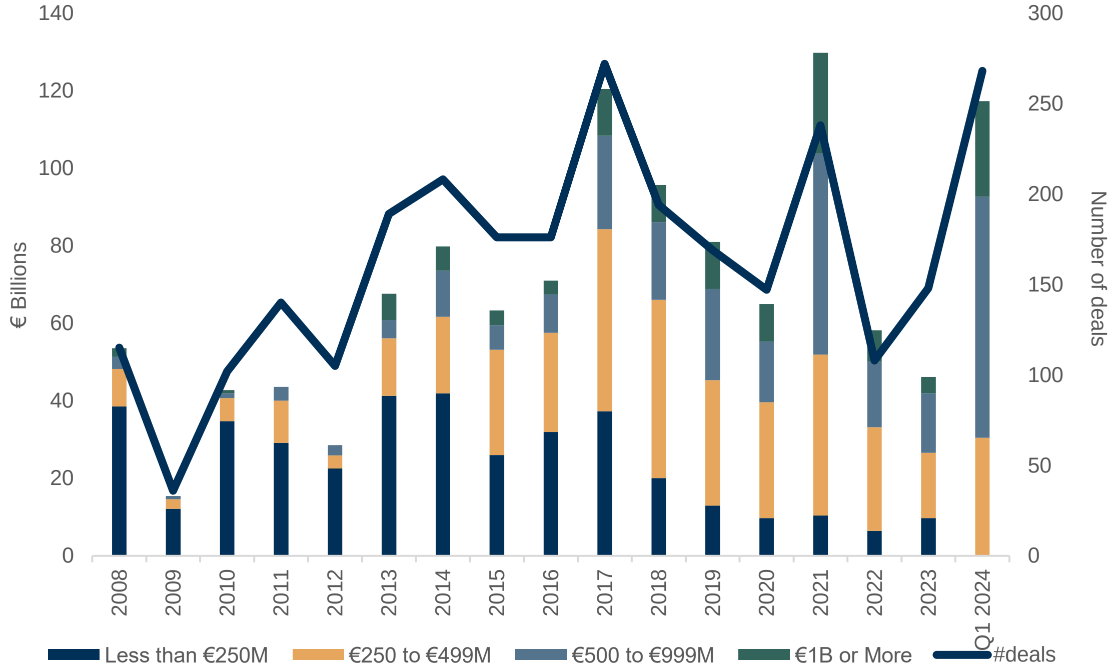
In European direct lending: the lower middle market is increasingly underserved

The European lower middle market corporates appear to need an increasing volume of financing from alternative lenders.

Issuances on the lower end of the leveraged loan market have now been trending downwards for a decade…

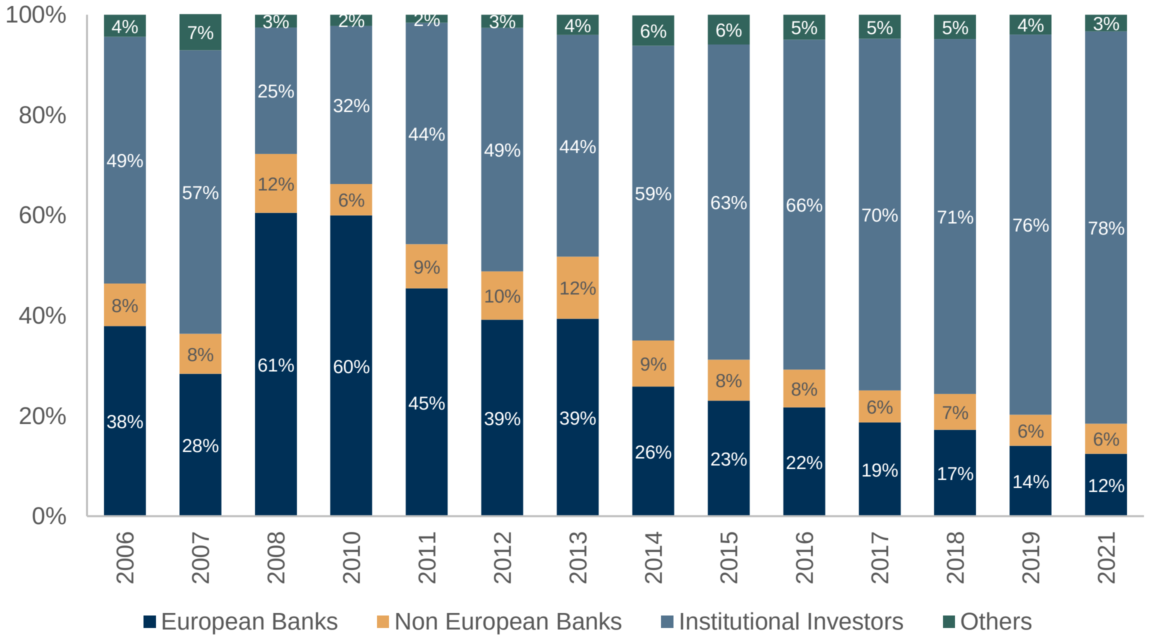
Annual senior loan volume (lhs) and deal count (rhs)



Sources: Kartesia, PitchBook, LCD European Leveraged Lending Review, Q1 2024. Deal count counts first and second lien portions of a single transaction as one event. Deal count also excludes any amendments. LCD updates current year volume as necessary to reflect the latest bank lending information.

… while bank loans have declined steadily over the period, leading European lower-middle market corporates to increasingly seek financing from alternative lenders.

Investor demand for primary loan issuance



Sources: Kartesia, PitchBook, LCD European Leveraged Lending Review, Q1 2024. Given the lack of primary issuance, LCD did not track enough observations to compile a meaningful sample for 2009, 2020, and 2023. As a result, the primary market investor charts are not yet updated for those years.

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Investors may consider sponsor-driven and sponsor-less deals, depending on geography

Partnerships are an important consideration for investing. One approach is not necessarily riskier than the other – it's market dependent.

- With regards to investment partnerships (i.e. sponsor-driven or sponsor-less deals), investors must assess which approach is best suited for the geography and segment they are considering for their portfolio. Choosing the right opportunity for the market, and the right partners for that opportunity, and can contribute positively to investor results.
- In Europe, for example, sponsor-less deals make up the large majority – nearly 90% - of the universe of lending opportunities available. In other words, by focusing on the sponsor-less market, investors expand their investment universe by nine times. In our view, this allows our investment teams to avoid compromising on quality of management teams, information provided, collateral secured, and other essential investment inputs.
- In the U.S., on the other hand, a more mature and highly competitive market means that sponsor partnerships can offer distinct competitive advantages under the right circumstances, particularly when leveraged over a long investment track record with strong investor relationships.

Potential positives of sponsor-driven and sponsor-less deals, assuming experienced partner elected:

Indicator	Sponsor-driven	Sponsor-less
Discipline	Sponsors care about their reputation with preferred lenders, encouraging more discipline in the sourcing and due diligence process.	Sponsor-less deals often require heavier financial covenants and more attention to collateral, including cash flow and hard assets on hand.
Risk management	Sponsor partners often provide third-party due diligence.	Leverage levels are often lower
Recovery	Patient, committed capital gives private equity sponsors the ability to assist businesses through incremental capital investments to support growth or in times of distress.	Sponsor-less transactions often have an extra layer of interest alignment, as company management often take further steps to preserve their credibility or family history. For them, the deal is about more than the loan.
Transparency	Sponsors have their own lens into the breadth and depth of portfolio companies and can be called upon for insights and deal flow.	Negotiating with sponsor-less companies provides a structural advantage, potentially allowing for better terms or bespoke opportunities.

Opinions of Apogem Capital and Kartesia. 2024.

Keys to success in non-sponsored deals

- Local presence allows investors to be recognized as a local, trusted credit and capital partner.
- Strong due diligence capabilities combined with the provision of comprehensive, flexible long-term debt and capital solutions
- Partnership, growth-oriented approach allows non-sponsored borrowers to partner with a capital provider that can financially support companies to make significant investments whether to grow organically or through acquisitions.

A trusted partner for investing in global private markets

As a long-standing and trusted partner to our parent company, New York Life Investments offers institutional investors several advantages:

Experienced Teams

Experience across multiple cycles

Deep institutional knowledge

Market expertise

Strategic Platform

Built with purpose

Consistency of capital through its investment business arm

Proven and repeatable process

Market Access

Superior access

Meaningful allocations

Opportunistic

Robust industry network

Alignment with Investors

Highly selective

Thoughtful diversification

Long-term focus

Co-investment with clients

New York Life Investments and its investment teams understand the unique needs of insurers because our parent company, who has been providing financial security to its policyholders for over 175 years, has those same needs.

About the authors

Demonstrating the depth and breadth of the New York Life Investments platform

Objective, top-down analysis

Global Market Strategy at New York Life investments

Our team of market strategists connects macroeconomics to asset allocation. Leveraging proprietary research alongside the breadth and depth of the New York Life Investments platform, we provide actionable insight into market-driving events, structural themes, and portfolio construction to empower investment decision-making.

Lauren Goodwin, CFA
Chief Market Strategist

Julia Hermann, CFA
Global Market Strategist

Michael LoGalbo, CFA
Global Market Strategist

Seasoned bottoms-up expertise

The benefit of our multi-boutique platform

At New York Life Investments, we offer a wide range of private market solutions tailored to meet client objectives. Our investment strategy is rooted in extensive experience and deep institutional knowledge, emphasizing thoughtful diversification and long-term growth. With a proven, repeatable process, our skilled team expertly manages assets across key sectors such as private equity, private credit, real estate, and infrastructure, leveraging deep industry insights and a methodical approach.

Private markets capabilities:

New York Life Investments

Apogem Capital
A NEW YORK LIFE INVESTMENTS COMPANY

KARTESIA

TRISTAN
CAPITAL PARTNERS

Additional definitions

Most definitions are provided no the relevant page. For those pages where space does not allow, as marked on those pages, additional definitions are provided here.

Cambridge Associates Buyout & Growth Benchmark: Cambridge Associates Buyout & Growth Benchmark Statistics represents a collection of institutional quality private fund performance and are based on data compiled from institutional-quality global buyout and growth equity funds formed since 1986. The benchmark aggregates portfolio-level performance information. Fund and investment-level performance information is drawn from the quarterly and audited annual financial statements of the fund managers and each manager's reported performance numbers are independently recreated from the financial statements and verified by Cambridge Associates.

Preqin Benchmarks: Represent the PreqIn Private Capital Quarterly Index, which captures in an index the return earned by investors on average in their private capital portfolios, based on the actual amount of money invested in private capital partnerships. Data sourced from variety of sources, including data from institutional investors obtained through Freedom of Information Act (FOIA) requests and submissions of data by managers.

The **Bloomberg U.S. Aggregate Index** is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The Index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency).

The **Bloomberg U.S. Corporate High Yield Index** measures the high yield, U.S. dollar-denominated, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P Ba1/BB+/BB+ or below.

The Russell 2000 is a stock market index that tracks the performance of approximately 2,000 small-cap U.S. companies, representing a segment of the broader equity market.

The Russell 1000 Growth Total Return Index tracks the performance of the 1000 largest U.S.-listed growth companies.

The Russell 1000 Value Total Return Index tracks the performance of the 1000 largest U.S.-listed value companies.

The S&P 500 Index is a stock market index that measures the performance of a select group of large-cap companies listed on U.S. stock exchanges.

The S&P 500 Growth Equity Index tracks the performance of the growth segment of the S&P 500, comprising of companies with higher price-to-book ratios and higher expected growth.

The S&P 500 Value Equity Index tracks the performance of the value segment of the S&P 500, comprising of companies with lower price-to-book ratios and lower expected growth.

The LPX50TR Index tracks the performance of private equity funds globally, providing a benchmark for investors to evaluate the performance of their private equity investments.

The EDHUSA Index measures the performance of the U.S. private equity market, providing insights into the returns generated by private equity investments in the United States.

The LPXDITU Index tracks the performance of private debt funds globally, offering a benchmark for investors to assess the performance of their private debt investments.

US High Yield refers to high-yield bonds denominated in U.S. dollars, typically issued by companies with lower credit ratings, offering higher yields to compensate for higher risk.

The Dow Jones Global Infrastructure Index measures the performance of global infrastructure companies involved in sectors such as transportation, utilities, and energy.

The FTSE NAREIT Index tracks the performance of real estate investment trusts (REITs), which are companies that own, operate, or finance income-generating real estate across various sectors.

US Investment Grade refers to investment-grade bonds issued by companies in the United States with strong credit ratings, indicating lower risk of default.

Important information