



Private Market and Hedge Fund Strategy Ratings: 2H 2025

July 2025



EXECUTIVE SUMMARY

Despite an unpredictably challenging macroeconomic backdrop, the second quarter ended with more momentum than when it started. M&A and IPO activity gained momentum throughout the second quarter while uncertainty and macro resiliency are defining counterweights across our outlooks. It's with this context that our semi-annual ratings are unchanged, as we're in a wait-and-see mode for sustained improvement. Overall, we're optimistic about the deal environment, reflected in positive views for middle-market buyout, venture, and event-driven strategies. On the credit side, we remain Neutral on credit hedge fund strategies and Positive on private credit despite some spread compression on new deals.

Ratings Summary

Asset Class	1H 2025	2H 2025	Trend
Private Equity			
Large Buyout	Neutral	Neutral	No Change
Middle Market Buyout	Positive	Positive	No Change
Growth Equity	Neutral	Neutral	No Change
Late-Stage Venture Capital	Positive	Positive	No Change
Early-Stage Venture Capital	Positive	Positive	No Change
Secondaries	Neutral	Neutral	No Change
Private Debt			
Private Credit	Positive	Positive	No Change
Distressed Debt/Special Situations	Neutral	Neutral	No Change
Real Assets			
Core Real Estate	Neutral	Neutral	No Change
Value-Add and Opportunistic Real Estate	Positive	Positive	No Change
Infrastructure	Positive	Positive	No Change
Energy	Positive	Positive	No Change
Hedge Funds			
Equity Hedge	Neutral	Neutral	No Change
Event-Driven	Positive	Positive	No Change
Macro	Positive	Positive	No Change
Multi-Strategy	Positive	Positive	No Change
Credit	Neutral	Neutral	No Change



| PRIVATE EQUITY

Large Buyout

Current Outlook: Neutral

Trend versus 1H 2025: No Change

We’re maintaining our Neutral rating for large buyout despite early signs of improving deal activity. For instance, in 2024, there were 44 deals over \$2 billion, a 10% increase from the prior year, while total value of these deals increased 27% year-over-year (YoY) to \$245 billion.¹ These improvements have continued in 2025 with 12 transactions over \$2 billion in the first quarter of 2025, up from 8 in Q1 2024.²

Yet not all underlying fundamentals for the large buyout space appear healthy. For example, the amount of dry powder for buyout funds with over \$12.5 billion in assets is \$275 billion, well above the 10-year average of \$146 billion. This growing amount of deployable capital is indicative of a more challenging environment to find

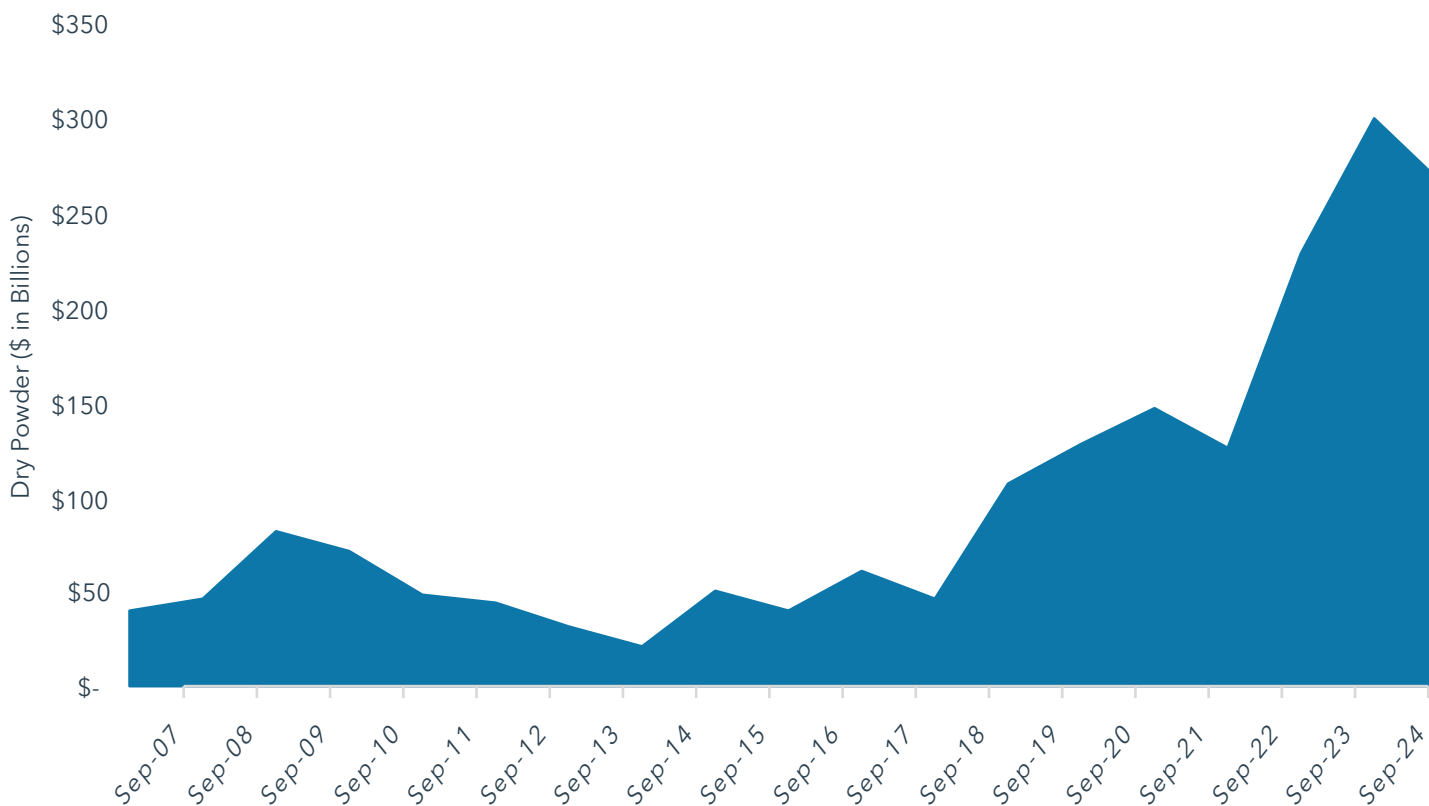
attractive investment opportunities (Exhibit 1). Arguably, the large market buyout segment may have raised too much capital, and the risk is not finding good places to invest. Valuation multiples are also at elevated levels. The EV/EBITDA median multiple for large transactions of 15.4x in Q1 2025 is a premium to its 10-year average of 11.5x.³

Finally, macroeconomic uncertainties remain that can have a greater impact on large buyouts relative to other strategies. From a financing perspective, the U.S. Federal Reserve is expected to cut rates over the next 12 months, which would result in less expensive debt and position large buyout to benefit more than other strategies, but the timing and size of the rate cuts remain unclear. Given the mixed fundamental data and macro uncertainty, we maintain our Neutral rating for large buyout strategies.

Risks: Slow deal activity due to dependence on syndicated financing, potentially limited supply of companies, continued tight credit markets, macroeconomic and geopolitical uncertainty.

Exhibit 1: Large Buyout Fund Dry Powder Remains at Elevated Levels

Dry powder for funds greater than \$12.5 billion (\$ billion)



Source: Preqin, as June 30, 2025; data through September 2024. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Middle Market Buyout

Current Outlook: Positive

Trend versus 1H 2025: No Change

Both resilient deal activity and fair valuations underpin our Positive rating for middle market buyout. In the first quarter of 2025, there were 983 middle market transactions – up 4% YoY – indicating slow but steady levels of sponsor engagement and a continued uptick in capital deployment (Exhibit 2). Total deal value was up 10% YoY in Q1 2025, suggesting that general partners (GPs) are finding viable entry points across a large and fragmented middle market universe.⁴ Relative to large buyout, we view middle market transactions to be more protected from macro uncertainty as many deals are sponsor-to-sponsor or strategic, and are generally less complex than large deals.

As is the case generally, middle market deal valuations remain at a discount to larger transactions with an EV/EBITDA median multiple of 10.8x in Q1 2025 compared to 15.4x for large buyouts.⁵ The valuation gap reflects

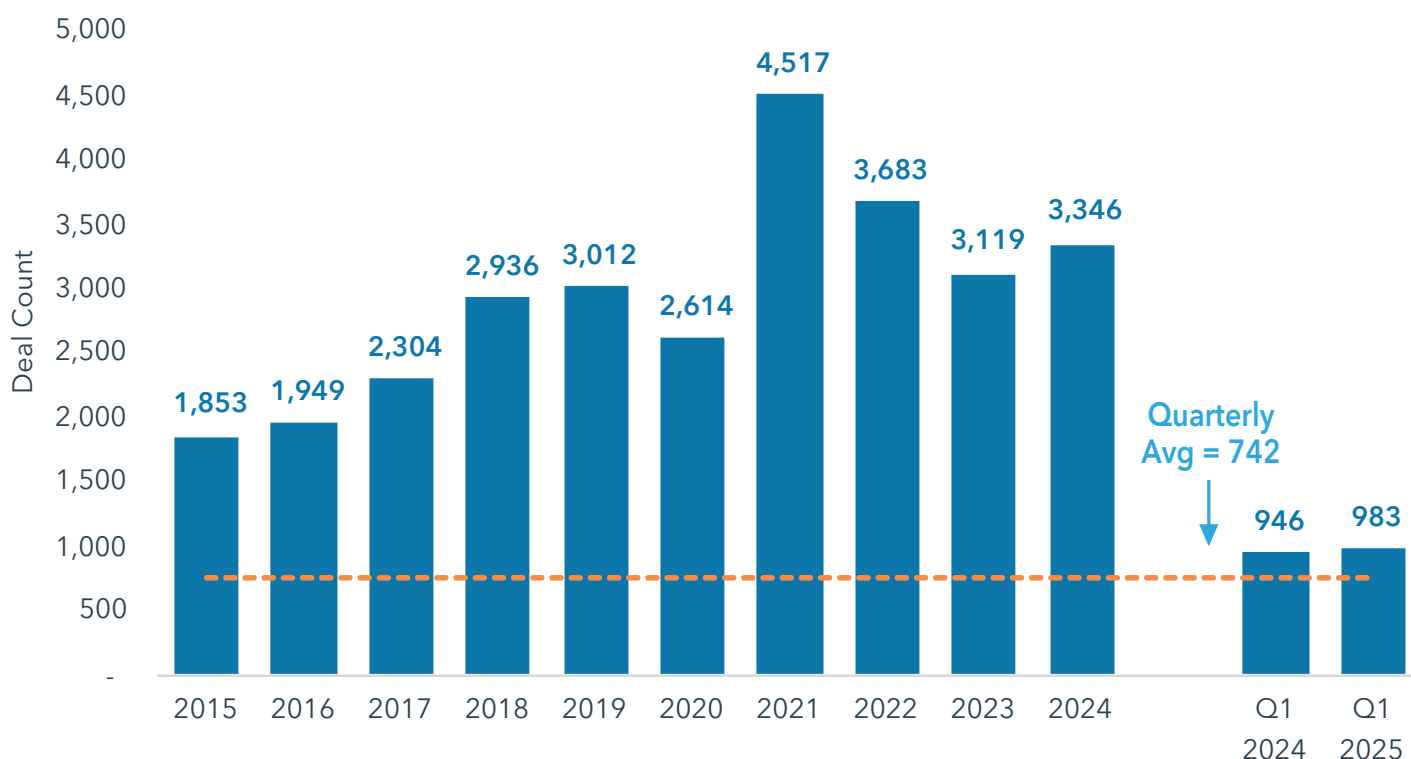
greater inefficiencies and less intermediated deal sourcing that is typical of the middle market, which continues to be a structural advantage for experienced managers with strong origination networks.

Finally, the middle market has seen fewer fundraising challenges relative to larger funds. Middle market buyout funds raised \$127 billion in 2024, versus a 10-year annual average of \$118 billion.⁶

Risks: Rising valuations and continuing challenges around the exit environment.

Exhibit 2: Middle Market Deal Activity Continues to Improve

Middle market transaction activity by deal count



Source: Q1 2025 US PE Middle Market Report, June 13, 2025. Note: Q1 2025 deal count data includes estimated deal count (PitchBook). For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Growth Equity

Current Outlook: Neutral

Trend versus 1H 2025: No Change

We maintain our Neutral rating for growth equity amid slower fundraising and a still questionable exit activity environment for such strategies. Growth equity had an encouraging start to 2025 with higher value deals, but this came through lower deal volume, implying larger deals are driving deal value in 2025.⁷ We believe growth equity managers were navigating the volatility in deal making and the capital markets in 2Q 2025, and we look for more evidence of a sustainable improvement in second half of 2025 to be more constructive on the outlook.

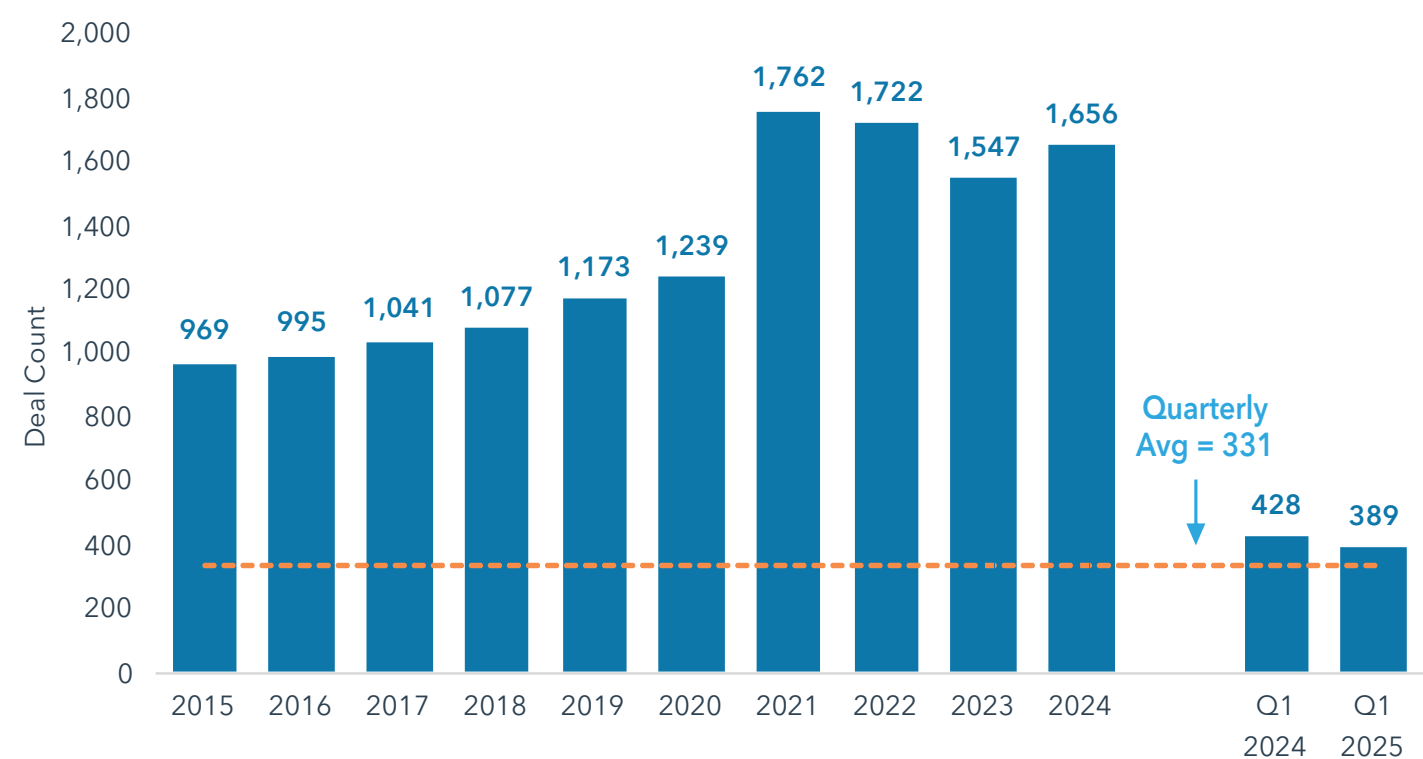
In terms of exit activity, the IPO market is showing signs of recovery, with approximately \$26 billion raised through public listings in Q1 2025, above 2024 activity levels.⁸ Even in the difficult 2Q 2025, larger deals with proven business models did price, but an outright recovery is still uncertain and is likely to hinge on signals of interest rate relief and investor sentiment.

Overall, our Neutral rating reflects a stabilizing environment for growth equity managers but one that likely needs to see more macro certainty before activity sees sustainable improvements. As the market gains support and confidence for deal making, managers with long-track records and large networks should be well positioned to create value.

Risks: Sustainability of deal activity and fundraising.

Exhibit 3: Growth Equity Deal Activity is Stable but also Rangebound

U.S. deal count for PE growth equity transactions



Source: Pitchbook Q1 2025 US PE Breakdown, April 11, 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Late-Stage Venture Capital

Current Outlook: **Positive**

Trend versus 1H 2025: **No Change**

We maintain a Positive rating on late-stage venture (companies in Series C or D of financing) primarily due to a continuing rebound in deal value with limited competition and an increasingly positive exit environment. On exits, we believe the macro-related disruptions seen in the first half of 2025 will prove to just be a timing issue.

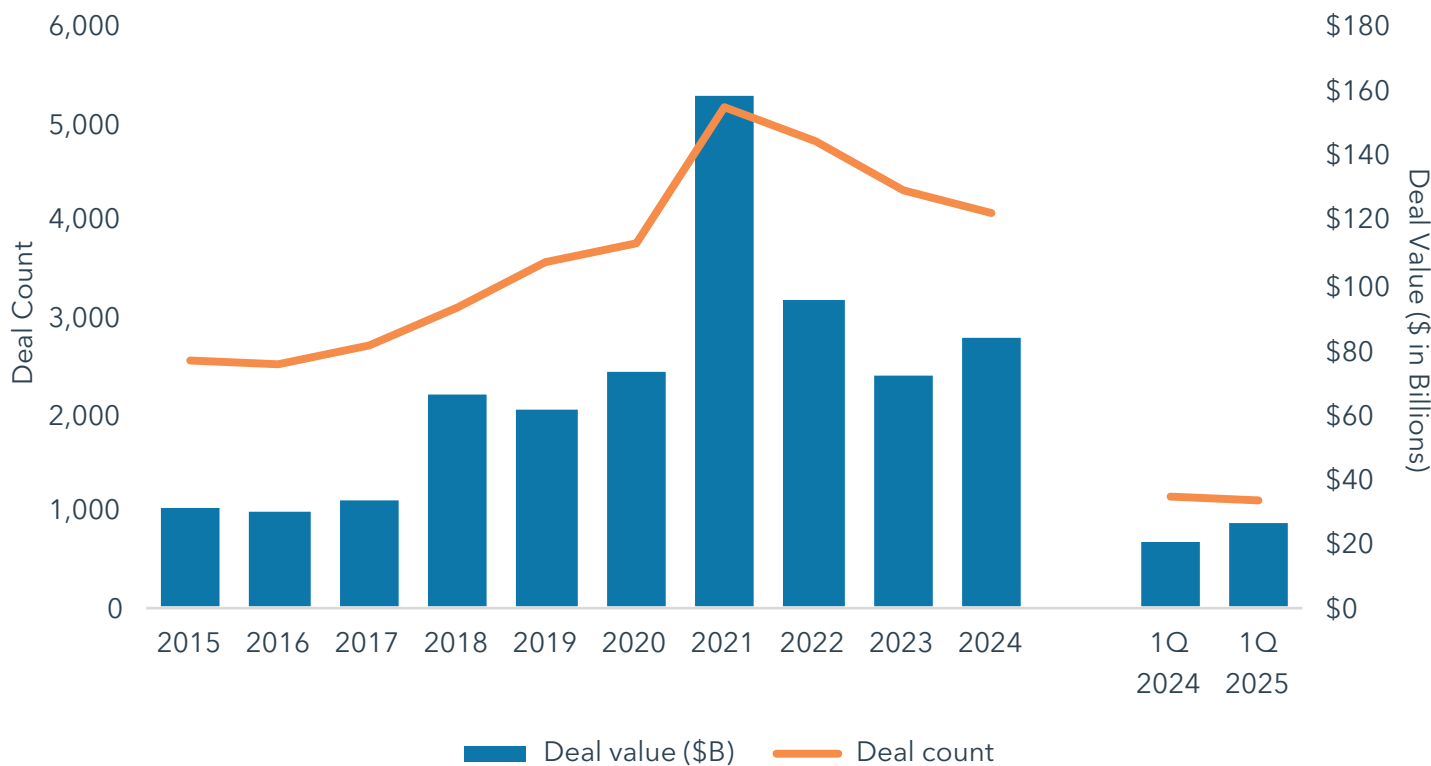
Late-stage venture deal value increased 27% YoY in Q1 2025 with median pre-money valuations roughly 16% higher than in 2024.⁹ Overall, late-stage valuations remain above 2021 levels, largely due to the boom in artificial intelligence (AI) funding. In Q1 2025, the top five venture deals were all AI-focused, in which each was in excess of a \$1.5 billion capital raise.¹⁰ Nevertheless, a continued rise in valuations bode well for this asset class. Furthermore, crossover investor participation – defined as a subset of nontraditional venture investors

such as asset managers or mutual funds – has remained muted with average activity over the past 10 quarters at roughly one-third the level seen in 2021.¹¹ This is something to continue to monitor as a large uptick in crossover and other nontraditional investors could signal the beginnings of a frothier market environment.

Lastly, the exit environment is continuing to show momentum after years of muted activity. In fact, Q1 2025 exit value for all venture exceeded \$56 billion, up over 35% quarter-over-quarter and nearly 140% from Q1 2023.¹² Furthermore, annualized Q1 2025 exit activity is on pace to increase by 40%-plus from 2024.¹³ This surge was mostly driven by increased IPO activity, as Q1 2025 public listing exit value of \$26 billion is nearly 1.5x the average quarterly volume from 2024.¹⁴ While the IPO market is clearly showing signs of life, this will likely be highly dependent on broader market volatility remaining subdued.

Risks: AI valuation exuberance, higher for longer interest rates, slow pace of exit volumes.

Exhibit 4: U.S. Late-Stage VC Deal Value and Activity



Source: Pitchbook, Q1 2025 Pitchbook-NVCA Venture Monitor, as of April 14, 2025. Note: Q1 2025 includes estimated deal count (PitchBook) and estimated deal value (iCapital). For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Early-Stage Venture Capital

Current Outlook: **Positive**

Trend versus 1H 2025: **No Change**

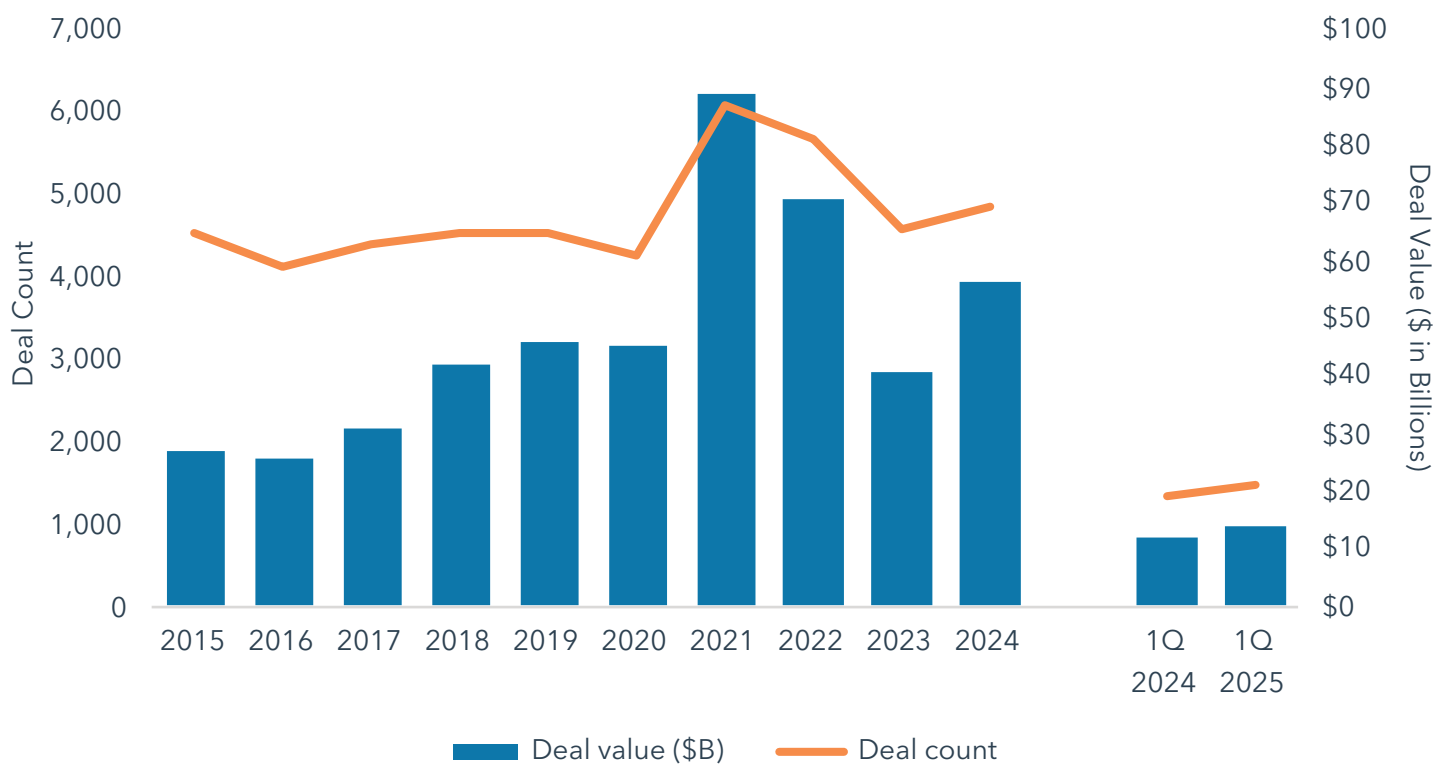
For venture opportunities, we believe there are several long-term secular trends around AI, big data, cloud, cybersecurity, fintech, and other themes that will provide ample room for value creation across the venture ecosystem. Early-stage venture capital deal activity (companies in Series A or B of financing) continues to show an upward trajectory with Q1 2025 deal value and deal count up 18% and 8% YoY, respectively, with modestly lower deal growth indicating more capital concentrated in fewer deals (Exhibit 5). Valuations also continue to rise from their 2023 lows, with early-stage median pre-money valuations increasing 24% in Q1 2025 (vs. CY 2024) and now exceed 2021 levels.¹⁵ Notably, AI continues to be an outlier, representing 71% of all venture capital in the first quarter of 2025, which is lifting overall valuations.¹⁶

Despite rising valuations, we still believe there are attractive entry points for early-stage venture strategies, as new commitments today will be allocated over the next three-plus years. Notably, early-stage investments are often at the stage of creating a product/technology and identifying product-market fit, which, combined with scaling, are the primary drivers of value creation. Given these dynamics and higher underwritten returns, early-stage investments carry less valuation risk than other stages of venture capital.

Finally, improving M&A pipelines and a pick-up in the broader exit environment (as noted with late-stage venture capital) should create meaningful liquidity across the venture ecosystem, which will then flow back into early-stage companies and fuel the next wave of growth.

Risks: AI valuation exuberance and declining fundraising activity given a slow pace of exit volumes.

Exhibit 5: U.S. Early-Stage VC Deal Value and Activity



Source: Pitchbook, Q1 2025 Pitchbook-NVCA Venture Monitor, as of April 14, 2025. Note: Q1 2025 includes estimated deal count (PitchBook) and estimated deal value (iCapital). For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Secondaries

Current Outlook: Neutral

Trend versus 1H 2025: No Change

Secondaries volumes remain strong, demonstrating the market remains a go-to source for liquidity. Global secondaries annual transaction volume of \$162 billion increased 45% YoY in 2024.¹⁷ LP-led secondary volume totaled \$87 billion, while GP-led volume was a record \$75 billion in 2024.¹⁸ Activity remained healthy through Q1 2025 with total deal volume of about \$45 billion and fundraising estimated at \$34 billion, which is the highest quarterly raise in two years.¹⁹

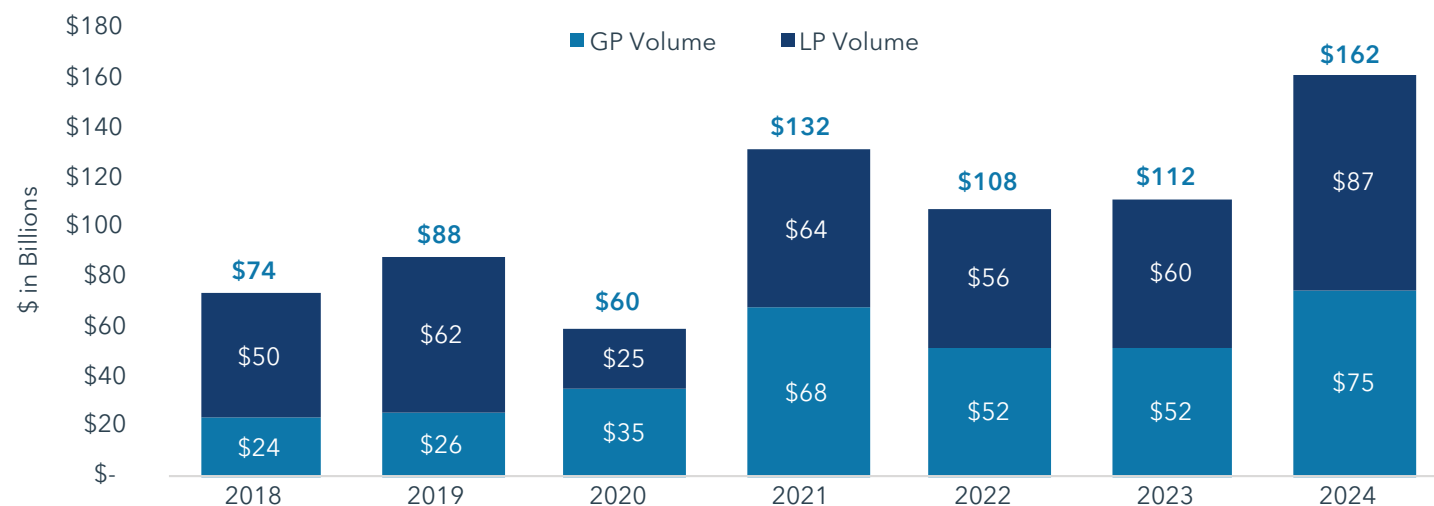
Growing activity and capital in the secondaries market have resulted in narrowed pricing discounts with LP pricing reaching 89% of net asset value in 2024, up from 81% in 2022; when looking at Buyout only, which constitutes a majority of secondaries volumes, pricing reached 94% in 2024 from 87% in 2022.²⁰ Tightening discounts modestly reduce the return potential that have made the strategy attractive in recent years.

As secondary volumes are typically driven by a desire for liquidity, periods of uncertainty and slow exits actually provide support to the market. Consequently, with our view that IPOs, M&A, and overall exits are starting to improve – combined with less favorable pricing – we maintain our Neutral rating on secondaries.

Risks: Higher pricing (narrowing discounts) from more competition/deal flow entering the secondaries market.

Exhibit 6: GP and LP-Led Secondaries Transaction Volume and Growth

Annual transaction volume (\$ in billions); annual volume growth (YoY % change)



Volume growth (YoY % change)							
LP-Led	-	24%	-60%	156%	-13%	-13%	7%
GP-Led	-	8%	35%	94%	-24%	-24%	0%
Total	-	19%	-32%	94%	-24%	-24%	0%

Source: Jefferies, Global Secondary Market Review, as of January 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.



I PRIVATE DEBT

Private Credit

Current Outlook: Positive

Trend versus 1H 2025: No Change

Private credit performance remained resilient through 2024 due to strong performance of underlying portfolio companies and the economy – the Cliffwater Direct Lending private credit index reported a 2024 calendar year return of 11.3%.²¹ Admittedly, we’ve seen some softening from our view at the start of 2025 – particularly spread compression on new deals and signs of difficulty in deploying capital. However, we believe lenders should still be able to achieve gross yields of about 10%, which is a premium to most high yield and investment grade yields, and a reason we remain Positive.

From a deal flow perspective, private equity deal activity serves as a key demand driver for direct lending, meaning there could be improving deal flow in the second half of 2025 as M&A activity rebounds. The low level of deal activity in the first half of the year highlighted increased competition from direct and balance sheet lenders. The magnitude of competition is one of the main areas we’re watching as it relates to a potential impact on volumes and pricing (yields).

So far, yields have been resilient with Secured Overnight Financing (SOFR) base of around 4.3%, spreads over the base rate slightly below 500-550 basis points range we noted in our 1H 2024 Strategy Ratings, and original issue discounts of around 1-2% amortized over three years

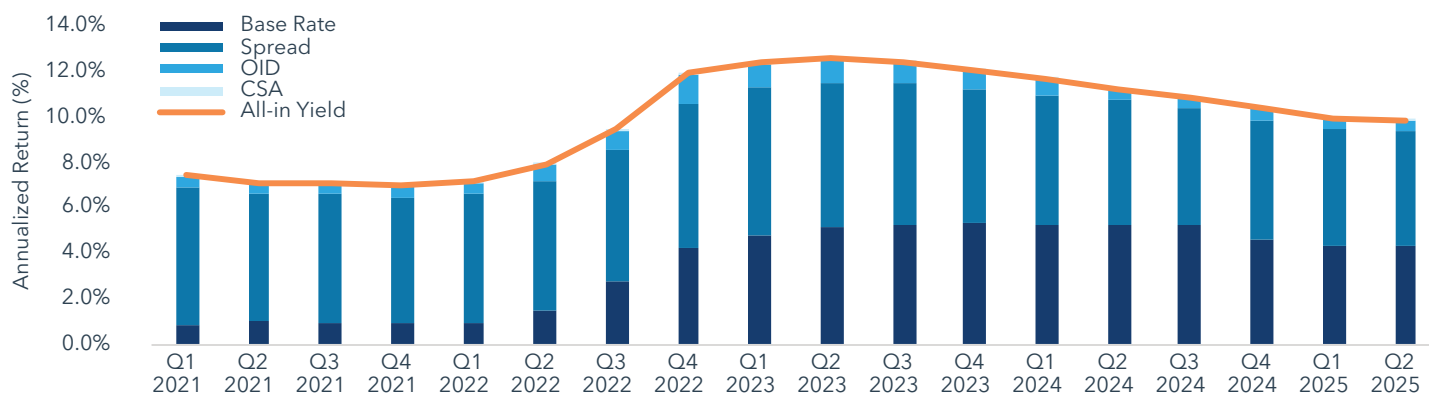
(Exhibit 7). Put together, lenders should see gross yields of approximately 10%, down slightly off the highs of 2024. We believe lenders will still be able to generate these yields with relatively low overall leverage (debt/EBITDA) and low loan-to-value ratios (greater equity cushion). Average debt/EBITDA multiples in Q1 2025 are back at 4.8x after an average of 5.2x in 2024, and meaningfully down from the 5.9x level seen in 2022.²²

Lastly, the underlying economy, so far, has not had a material impact on borrower health. Proskauer’s quarterly Private Credit Default Index for senior-secured and unitranche loans had a default rate of 2.42% in Q1 2025, down from 2.67% in Q4 2024.²³ Default rates can move quarter-to-quarter but have hovered in the 2-3% range and have not been a red flag for overall credit quality.²⁴ While private credit lenders are mostly insulated from duration risk due to the floating rate structure of most loan packages, in many cases, they can only pass on a certain increase in yield without over-burdening their portfolio companies. Additionally, inflationary pressures have shown signs of abating, with the March, April, and May 2025 Consumer Price Index (CPI) each below 2.5%.²⁵

Risks: A material downturn in the economy could lead to lower yields (as a function of the Fed lowering interest rates) combined with a potentially more difficult operating environment for underlying borrowers. A continued muted deal environment could further compress spreads and limit new opportunities for lenders who continue to raise new capital.

Exhibit 7: Sponsored All in First-Lien Yields

Cliffwater new issue all-in yield composition



Source: Cliffwater LLC as of June 2025. Note, OID is amortized on a three-year term to repayment. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Distressed Debt/Special Situations

Current Outlook: Neutral

Trend versus 1H 2025: No Change

Although markets initially reacted negatively to the implementation of tariffs by the Trump administration, benchmark interest rates and credit spreads have remained relatively in line with recent history through the first half of 2025. Even as economic uncertainty remains, this has not led to material distress in the markets to date. Should the situation worsen, distressed and special situations strategies could benefit, but the resiliency of the current market environment suggests this could be premature.

There has been a limited increase in the supply of distressed debt, with default rates for private debt remaining low at 2.42% in the first quarter of 2025, which is slightly lower than 2.67% in the fourth quarter of 2024, according to the Proskauer Private Credit Default Index.²⁶ Leverage loan default rates also remain below their 25-year average of 2.43%. As of March 2025, the last twelve months default rate was 1.23%.²⁷ Finally, the March 31, 2025 distressed ratio was 4.5%, by issuer count, which is inside of the 10-year average of 5.4% (and inside the 20-year average of roughly 7.5%).²⁸ In 2024, sub-investment grade companies refinanced debt at a record pace, greatly reducing the near-term maturity wall, while a high volume of repricing lowered the cost of debt for many borrowers.²⁹

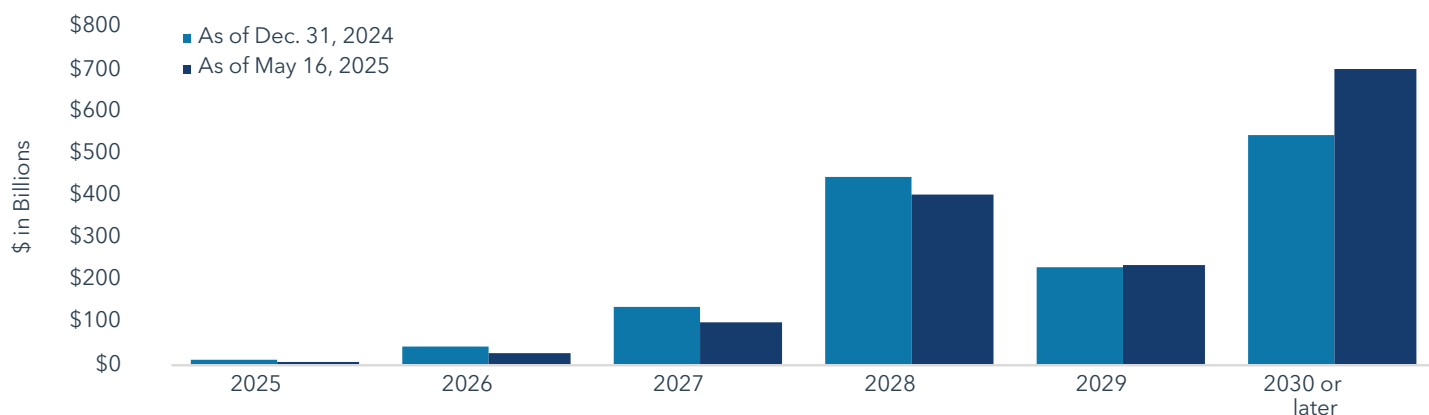
While corporate distress remains muted, U.S. commercial real estate continues to face headwinds. The balance of distress in the U.S. commercial real estate market reached \$116.4 billion at the end of the first quarter of 2025.³⁰ The pool of distressed assets expanded in the first quarter by \$12 billion, with the hotel and office sectors having the greatest impact.³¹

Despite pockets of opportunities in corporate credit and broader concerns in real estate, there are several headwinds to take note of. Given the recent flurry of refinancing activity, there is likely a smaller opportunity set over the next two years, outside of an exogenous shock. In addition, a likely path for rate cuts could ease some pressures and help keep defaults low. If the macro environment were to worsen, distressed opportunities could see an uptick on the back of a deterioration in business and consumer sentiment, a weaker labor market, and slower economic growth. Should these headwinds materialize further, we could revisit our rating. However, we note that distressed debt can be a useful diversification in a weaker economic scenario; there is a risk of investing too early before significant distress materializes, muting performance.

Risks: Uncertain timing and size of the forward opportunity set given refinancing activity and below average default rates.

Exhibit 8: Refinancings Have Helped Reduce the Near-Term Maturity Wall

Morningstar LSTA US Leveraged Loan Index maturity breakdown (\$ in billions)



Source: PitchBook | LCD; Morningstar LSTA US Leveraged Loan Index, as of May 16, 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.



I REAL ASSETS

Core Real Estate

Current Outlook: Neutral

Trend versus 1H 2025: No Change

We are maintaining our Neutral rating on core real estate. Key indicators continue to show improvements in 2025, including slower construction starts, stabilization in broader capitalization rates (cap rates) and positive trends around absorption rates – the rate at which properties are sold. And as important, property value appreciation was positive for the second consecutive quarter after multiple years of decline, as seen in the performance in NCREIF NFI-ODCE in Q1 2025 (Exhibit 9). Yet we characterize this progress as marginal, gradual improvement and look for evidence of more material, sustained progress before turning more constructive on the outlook.

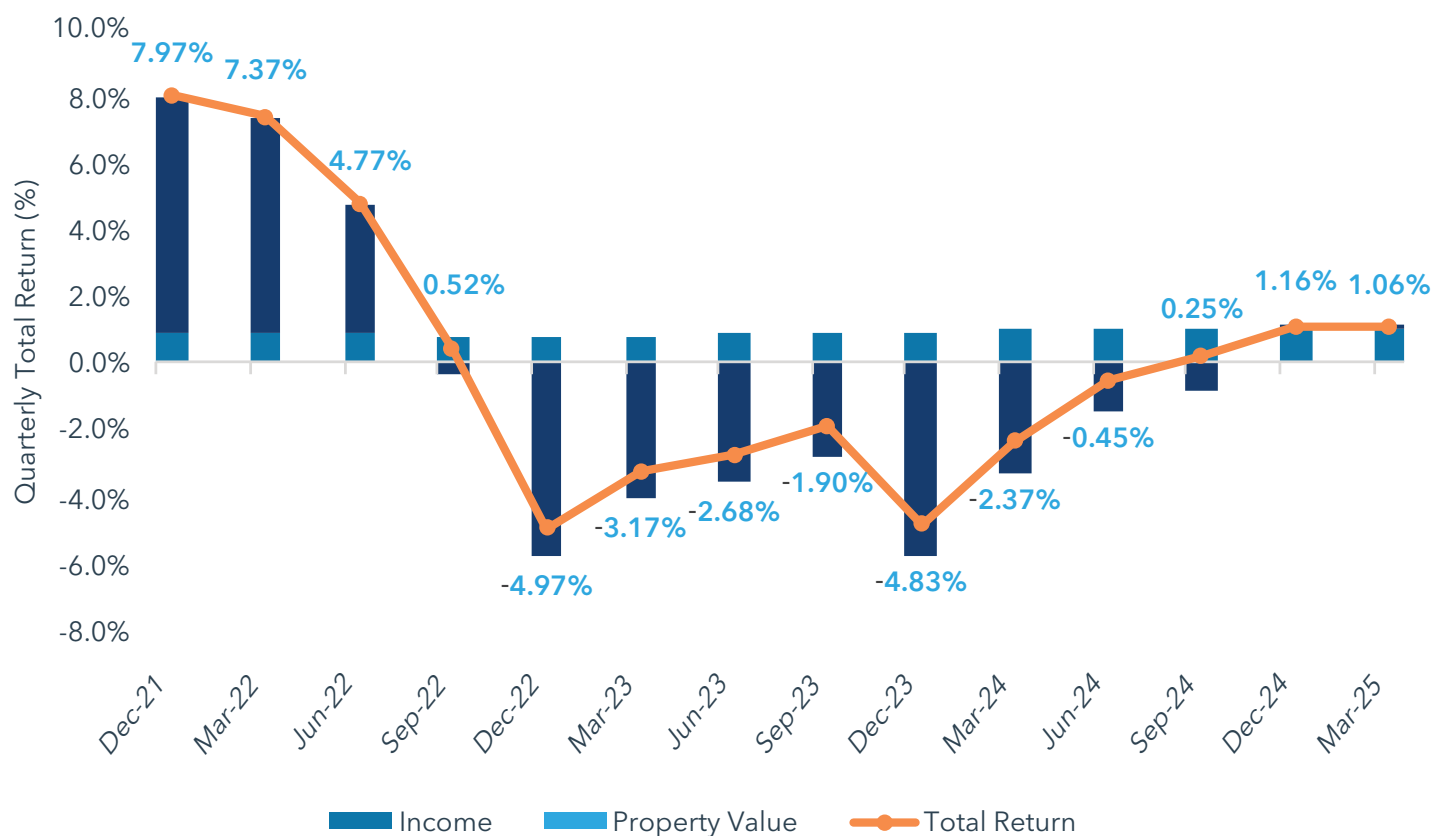
Tariffs further complicate the situation for real estate. The impact of trade policy shifts is broad and nuanced,

pulling in opposing directions. For example, material, labor, and financing costs could increase if tariffs have an inflationary impact and would weigh on net operating income (NOI) growth. At the same time, rising input costs can also serve to restrict new supply of real estate, which could be beneficial for existing assets. Likewise, increased tariffs on imported goods can potentially impact tenants in sectors such as retail. At the same time other sectors, such as industrial, may benefit from new demand sources such as the reshoring of manufacturing back to the U.S.

Longer-term, we believe that underlying fundamentals have support, but we believe it remains early to have confidence in an outright sustained improvement in the market.

Risks: Potential inflationary impact of trade policy, continued defaults in certain sectors, price depreciation, and some signs of slowing rent growth.

Exhibit 9: Property Value Price Stabilization Continues in 2025



Source: CBRE, JLL, NCREIF NFI-ODCE Index, data as of June 27, 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Value-Add and Opportunistic Real Estate

Current Outlook: **Positive**

Trend versus 1H 2025: **No Change**

Value-add and opportunistic investing remains our top idea in real estate. In fact, NOI for such strategies has increased significantly faster than inflation over the last 10 years, which should enable total return strategies to outperform alongside a stabilization in real estate values.³²

Similar to our view for core real estate, the fundamental picture for opportunistic strategies is slightly improving. While cap rates are showing signs of stabilization, they have increased in 2025 due to trade policy uncertainties. Because of this, the main drivers of real estate returns continue to be through return enhancers such as investment in renovations and development. Our positive thesis is centered on the benefits such strategies can

achieve by focusing on asset-specific stress and excess returns through ground up development, restructuring, or major repositioning of assets.

We believe the opportunity for capex-related investment remains robust as the aging stock of commercial properties continues to increase, providing more opportunities for managers to pursue properties at discounts to replacement value to generate attractive opportunistic returns. Value-add and opportunistic strategies have the ability to inject capital into these buildings and greatly improve the buildings' fundamentals and value beyond what a core strategy can do. For example, the number of multifamily properties in the U.S. that are over 40 years old rose to 45.4% in 2021.³³ As these commercial and residential properties age, the need for capital expenditure to improve value will be increasingly emphasized.

Risks: Increased costs for real estate refurbishment due to trade policy, increases in capital supply due to expected interest rate cuts.

Exhibit 10: Spending on Renovations is Expected to see an Uplift

U.S. CRE renovation spending, actual and projected (\$ billions)



Source: ConstructConnect Insight, iCapital Alternatives Decoded, with data based on availability as of Apr. 30, 2025. Note: Data as of December 2024 and is subject to change based on potential updates to source(s) database. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Infrastructure

Current Outlook: **Positive**

Trend versus 1H 2025: **No Change**

We remain Positive on infrastructure strategies based on our views that the current inflationary environment and macro uncertainties could increase volatility across markets. For example, the medium-term five-year inflation expectations of 2.6% by The Federal Reserve Bank of New York remains higher than the U.S. Federal Reserve’s target of 2.0%.³⁴

An area to watch is the impact related to policies from the Trump Administration, which may impact infrastructure in both positive and negative ways. Tariffs and tariff speculation have short-term impacts of higher costs related to inflation of materials needed to complete projects such as steel, aluminum, transformers, and semiconductors. Over the long term, the opportunity related to reshoring could be attractive for projects that can take advantage of reindustrializing the U.S. Additionally, the One Big Beautiful Bill Act (signed into law July 4, 2025) delivers a number of impactful changes to the Inflation Reduction Act, with an emphasis on reducing the tax benefits of energy transition, including the 30% solar tax credit. We do not believe that recent legislation will have a significant impact on brownfield assets or those currently in development. There is little risk the new

legislation will be retroactively applied to operational assets or those already under construction. While long-term shifts to renewable energy remain strong (low cost of producing solar, increasing power demand from AI), the overall attractiveness of investments in the space may be impacted from these policy shifts.

Structurally, fundamentals for infrastructure remain attractive. The asset class is a beneficiary of a large funding gap in infrastructure projects over the next 10 years. According to the American Society of Civil Engineers, the U.S. funding gap between 2024 and 2033 has grown to \$3.7 trillion, (Exhibit 11), which is up from \$2.9 trillion from the 2024 report.³⁵ This funding gap reflects an immediate and ongoing need for additional investment in infrastructure. Digital infrastructure and power generation continue to provide strong tailwinds due to the increased demand following the rise of AI. Per Goldman Sachs, data center demand growth is expected to grow from 3% of total power demand in the U.S. to 8% by the end of the decade.³⁶ Sources of energy will largely remain in the energy transition segment, both with renewable sources and natural gas.

Risks: Duration risk could weigh on valuations and performance in a higher-interest rate scenario; slower economic growth could impact GDP-sensitive sectors such as transportation; geopolitical instability may reduce the opportunity set for global funds.

Exhibit 11: \$3-plus Trillion Investment Needed to Maintain Current State of Infrastructure

Ten-year gaps with continue to act scenario to reach and maintain a state of good repair (\$ billion)

	Anticipated Investment	Total Needs	Gap
Surface Transportation	\$2,293	\$3,549	\$1,256
Water Transportation	\$32	\$45	\$13
Energy	\$1,308	\$1,886	\$578
Aviation	\$197	\$310	\$113
Other	\$965	\$1,696	\$731
Total	\$5,450	\$9,139	\$3,689

Source: American Society of Civil Engineers, ASCE’s 2025 Infrastructure Report Card, March 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Energy

Current Outlook: **Positive**

Trend versus 1H 2025: **No Change**

Heading into the second half of 2025, we maintain our Positive rating on energy strategies, albeit with more muted conviction relative to the start of 2025. Uncertainty has begun to creep into the energy markets from trade policy shifts and growing geopolitical concerns but has been offset by strengthening global demand for all forms of energy.

Oil prices are experiencing heightened volatility including a four-year low of \$56/bbl followed by an upward pricing pressure to \$73/bbl by mid-2025.³⁷ Natural gas remains range bound, generally hovering between \$3/MMBtu and \$4/MMBtu.³⁸ From a profitability standpoint, both oil and gas are tracking well, given the current pricing. Per the Dallas Federal Reserve surveys, breakeven pricing on new wells maxes out at \$65/bbl while existing wells are much lower at \$41/bbl.³⁹ Natural gas breakeven pricing across the U.S. is generally viewed at \$3/MMBtu or less. With both energy sources sitting in profitable territory, there is potential for continued production and positive cash flow generation.

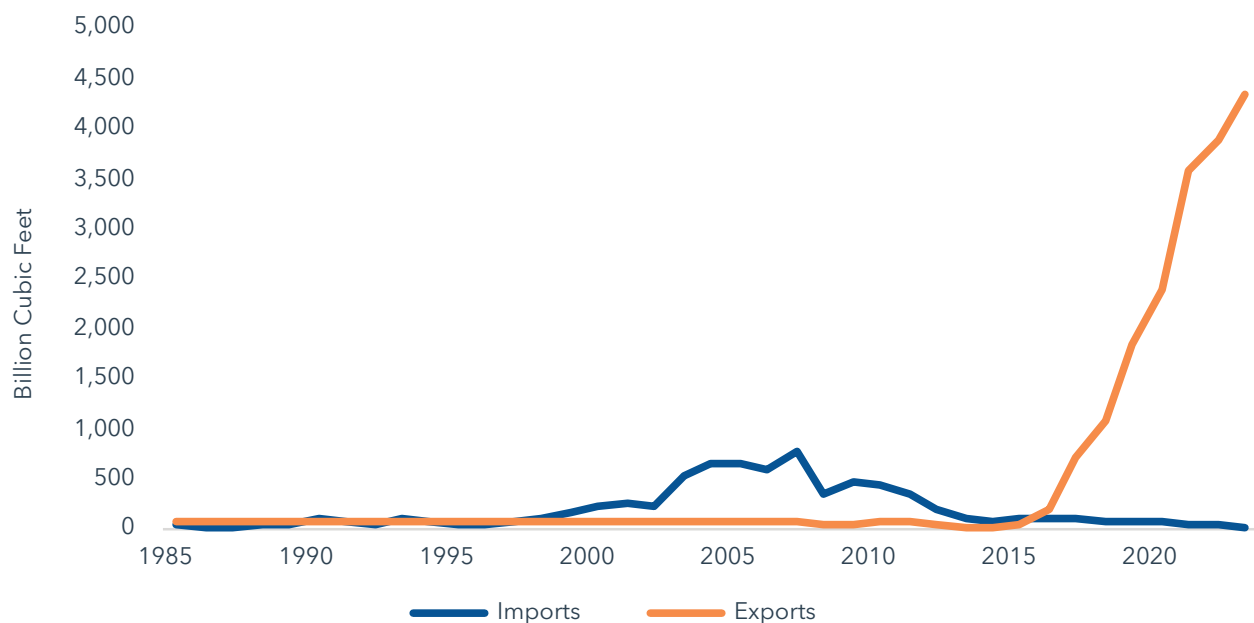
The outlook for global oil can best be characterized by supply-based uncertainty with risk factors that are pulling in opposite directions. Initial reactions to the U.S. tariff

announcements in April 2025 resulted in a steep drop in oil prices due to global recessionary fears. OPEC's surprise production increase announced in Q2 2025 further lowered the outlook for oil prices. Both events were drastically offset by June's price increase due to the Israel-Iran conflict. Looking ahead to the second half of 2025, we expect more uncertainty on the supply side but are leaning towards stable demand for oil.

The outlook for natural gas is largely a demand story. While the AI-led acceleration in data center investment (and ensuing power needs) is well documented, escalating geopolitical conflicts significantly increased liquid natural gas imports. As a result, the U.S. has continued to fast track liquification projects to meet that demand, opening the possibility for increased production and higher natural gas prices. Over \$250 billion has been invested in liquification capacity globally over the past 10 years and a 50% increase in supply is expected to come online by 2030.⁴⁰ As the world's largest liquefied natural gas exporter, we believe that new data-center consumers of U.S.-produced natural gas will provide significant opportunity for upstream investment.

Risks: Slowing economic growth from trade policy, bringing supply and demand back into balance; unpredictable supply side issues concerning OPEC; geopolitical risks increasing energy security concerns.

Exhibit 12: U.S. Liquefied Natural Gas Imports and Exports



Source: U.S. Energy Information Administration, "Natural Gas Monthly," March 2024; preliminary data for 2023. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.



I HEDGE FUNDS

Equity Hedge

Current Outlook: Neutral

Trend versus 1H 2025: No Change

Equity hedge funds began 2025 on the downside amid a volatile backdrop in the global equity markets. Growth-oriented segments, such as technology and communications struggled as “Magnificent 7” names underperformed, and the resurgence of international equities caught many managers flat-footed after several years of U.S. exceptionalism (Exhibit 13).

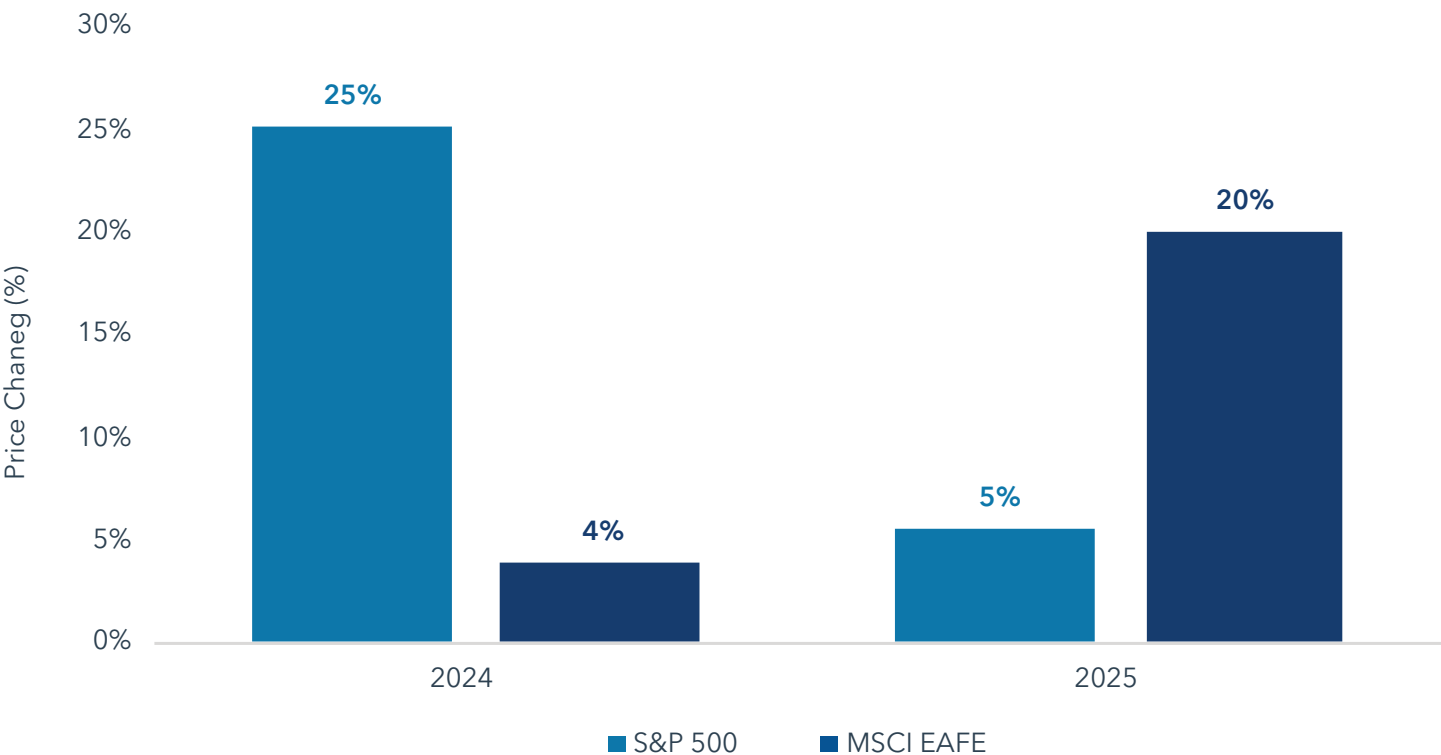
Looking ahead, changes in trade and fiscal policy may contribute to a less balanced environment for corporate earnings. Price dispersion has been elevated in recent periods and may remain so, providing an opportunity for diversified quantitative long/short funds to capture this two-way price action. More direct and fundamental strategies may remain challenged by still-high market valuations as investors weigh slowing earnings growth against the potential for further monetary easing in the back half of the year.

We expect regional market performance will also remain a differentiating factor in manager performance. Local government and central bank responses to the evolving economic and geopolitical landscape will likely result in continued divergence of returns across regions and individual country markets.

Risks: Beta headwinds overshadow alpha generation; deteriorating outlook for corporate earnings; macro-level factors dominate company fundamentals; falling dispersion among individual issuers; sharp style or factor imbalances (e.g. growth vs. value).

Exhibit 13: Global Equity Dispersion Created Opportunities for Global vs. U.S. Managers

One year price change (percent)



Source: S&P Capital IQ, MSCI as of July 1, 2025. Note: 2025 data is year-to-date through June 30,2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Event-Driven Strategies

Current Outlook: **Positive**

Trend versus 2H 2024: **No Change**

Event-driven funds navigated a challenging backdrop in early 2025, posting a small loss during the period. Overall corporate activity fell from the prior quarter as both strategic and financial buyers took a more cautious view in the face of changes to trade policy and their potential impact on the economy.

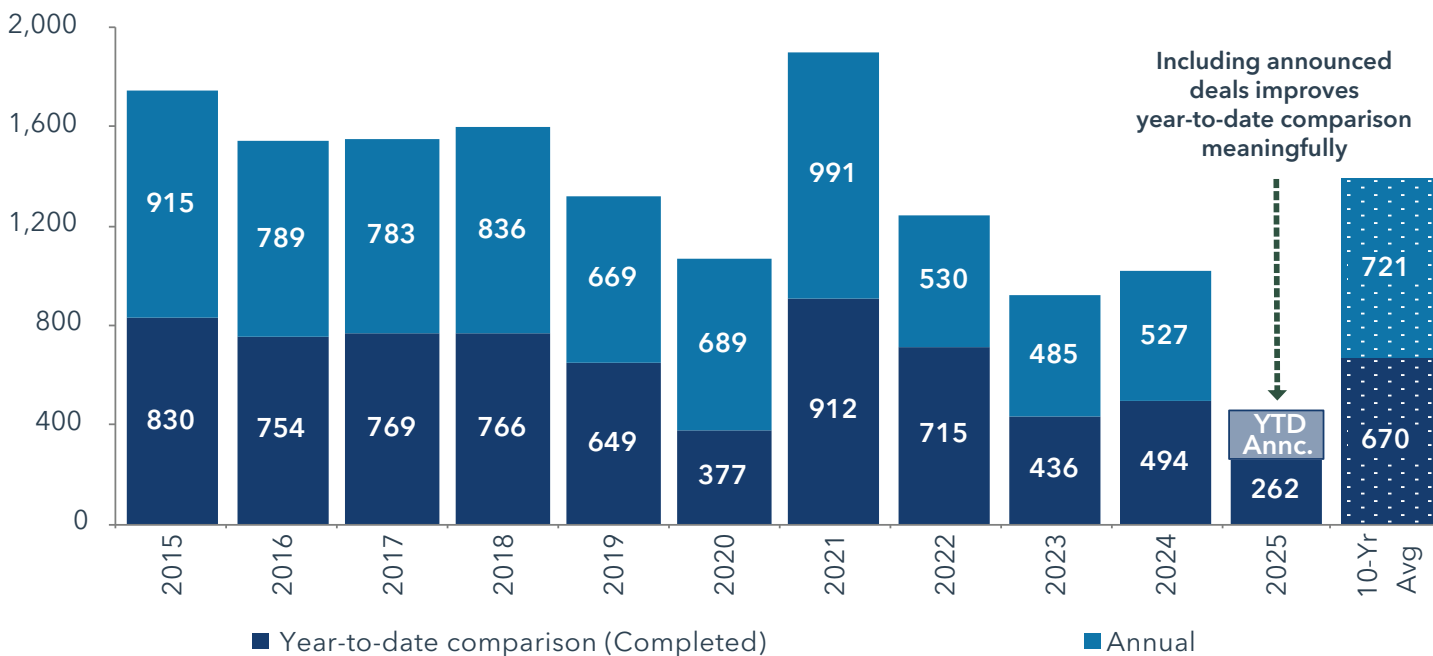
However, we are maintaining our Positive outlook on the strategy. Despite the initial noise around tariffs, we believe the U.S. administration is keen to implement several pro-growth/pro-business measures (e.g. deregulation, tax reform) that will ultimately stir “animal spirits” in the business community. There is already early evidence of a more active corporate deal environment – particularly mergers and acquisitions – which provides a larger set of catalysts for managers to exploit (Exhibit 14). In addition, the commentary from management teams at recent investor conferences suggests strong M&A pipelines.

More broadly, we believe funds that invest across the capital structure are well suited to capture select opportunities, particularly in situations where the manager can drive investment outcomes. These can include launching a shareholder activist campaign, providing bespoke capital solutions, or leading corporate restructurings. An environment with shifting economic policies is likely to offer plenty of ‘special situations’ and soft catalyst opportunities for active and dynamic managers to monetize.

Risks: Decrease in business confidence reduces or delays deal timing; a more restrictive regulatory backdrop dampens corporate activity; beta headwinds overshadow alpha generation due to fund-level concentration and directionality.

Exhibit 14: Completed M&A Transactions Lag, But Announced Seals Signal Pickup

U.S. completed M&A deals exceeding \$100 million in size, by year (count, as of June 24, 2025)



Source: Bloomberg, iCapital Investment Strategy Analysis, with data based on availability as of June 25, 2025. Note: Data as of June 24, 2025, and is subject to change based on potential updates to source(s) database. M&A data used is sourced from Bloomberg data and is based on completed M&A deals exceeding \$50 million in size. Announced or pending deals are not included unless otherwise noted. Data is analyzed by region of company. Self-tenders, recaps, exchange offers, and spinoffs are excluded. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Macro Strategies

Current Outlook: **Positive**

Trend versus 1H 2025: **No Change**

Macro strategies have advanced in 2025, albeit with mixed results across asset classes and trading strategies. Discretionary macro managers have generated solid gains, led by trading in global interest rates, while systematic macro strategies have been hampered by reversals in global equity markets and foreign exchange with the U.S. Dollar porting its worst first-half return in over 50 years.⁴¹

We believe macro strategies can take advantage of the uncertainty throughout global financial markets thanks to short-term price moves that often provide tactical opportunities for nimble fund managers. Additionally, macro practitioners who have the resources to trade across asset classes and geographic regions are particularly well positioned to capitalize on the range of opportunities.

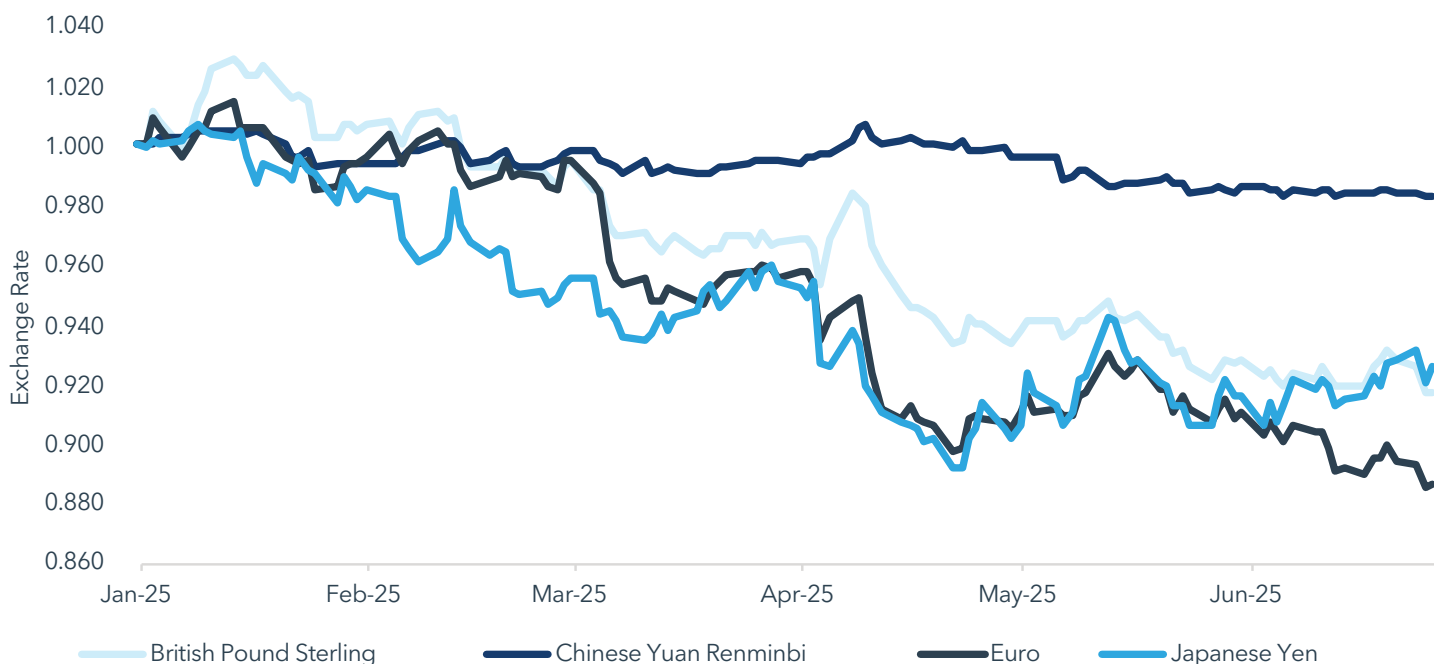
Historically, macro strategies tend to provide better relative performance during periods of market

dislocation. Their broad exposure and ability to take directional views, both long and short, can provide diversification benefits relative to a portfolio of traditional assets. With this flexibility, however, there tends to be a wide dispersion of returns among individual macro managers—hence the importance of manager selection when evaluating different macro strategies.

Risks: Dampened volatility across asset classes; reversals or “choppy” trading across key investment themes; convergence of economic and monetary policies globally.

Exhibit 15: The U.S. Dollar Slid Against Global Peers Though 2025

USD to select major currencies



Source: S&P Capital IQ, Interactive Data Pricing and Reference Data LLC as of June 25, 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Multi-Strategy

Current Outlook: Positive

Trend versus 1H 2025: No Change

Multi-strategy funds delivered modest gains in the first half of 2025, protecting capital as they navigated the market turbulence from February to April. Profitable trading in global interest rates and, to a lesser extent, quantitative strategies helped overcome a challenging period for long/short equity allocations. The period also enabled managers to rotate capital to the most compelling relative value opportunities across asset classes.

Looking at the second half of 2025, we think the setup for multi-strategy managers remains favorable. Key policy changes in the U.S. and abroad have clouded the outlook for the global economy, likely resulting in continued market volatility and dispersion of results among individual issuers. Diversified multi-strategy funds run by talented portfolio management teams can quickly pivot to capitalize on this changing opportunity set.

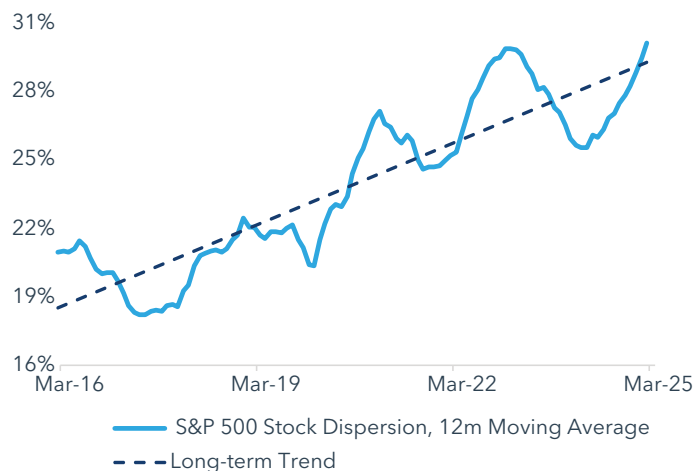
The gap between the larger, established funds and a growing pool of emerging platforms continues to

expand. Larger platforms that can offer more capital and resources are increasingly at a competitive advantage in attracting and retaining investment talent. At the same time, client demand among the top-tier firms continues to outpace supply, forcing managers to continually reassess their ability to deploy capital profitably.

Risks: Lower volatility across asset classes; lower dispersion among individual issuers; unbalanced or excessive risk factor exposures; competition for investment talent.

Exhibit 16: Dispersion Has Been Exhibiting a General Rising Trend in Recent Years

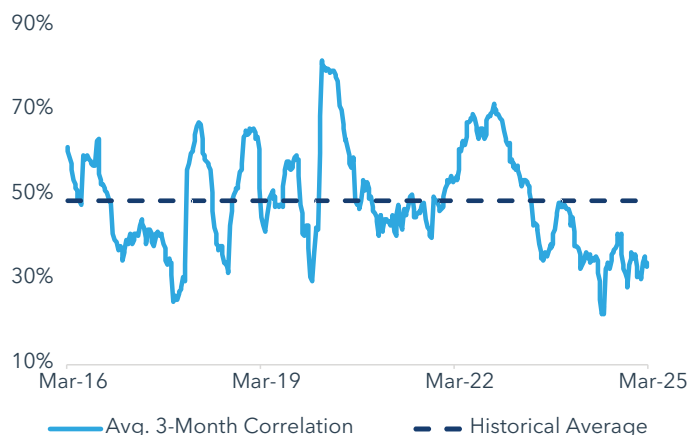
S&P 500 dispersion per the CBOE S&P 500 Dispersion Index (% as of March 2025)



Source: CBOE, S&P Dow Jones, iCapital Alternatives Decoded. Note: Data through March 2025 and is subject to change based on potential updates to source(s) database. Cboe S&P 500 Dispersion index measures the expected dispersion in the S&P 500 over the next 30 calendar days. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Exhibit 17: Equity Correlations Remain Low Relative to Historical Averages

Bottom-up average 3-month stock correlation to the S&P 500 (% as of March 2025)



Source: S&P Dow Jones, iCapital Alternatives Decoded. Note: Data through March 2025 and is subject to change based on potential updates to source(s) database. For more information, please refer to the Index Definitions, Attributions, and Important Information sections at the end of this document. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Credit Hedge

Current Outlook: Neutral

Trend versus 1H 2025: No Change

Credit hedge funds were profitable in early 2025. Despite the bond market's bout of volatility in the March/April timeframe, still-tight spreads generally provided a conducive backdrop for fundamentally oriented strategies.

Entering the back half of the year, credit spreads remain tight – more so in high yield than leveraged loans – and new issuance has been robust. In our view, this signals that the current environment still favors borrowers over lenders. Therefore, we remain Neutral on the strategy group, as we believe the risk-reward profile of the credit markets is fairly balanced.

We do, however, believe there will be pockets of opportunity, even amid a potential economic slowdown. Companies are increasingly pursuing liability management exercises as they look to “amend and extend” their liabilities. This can present compelling opportunities for

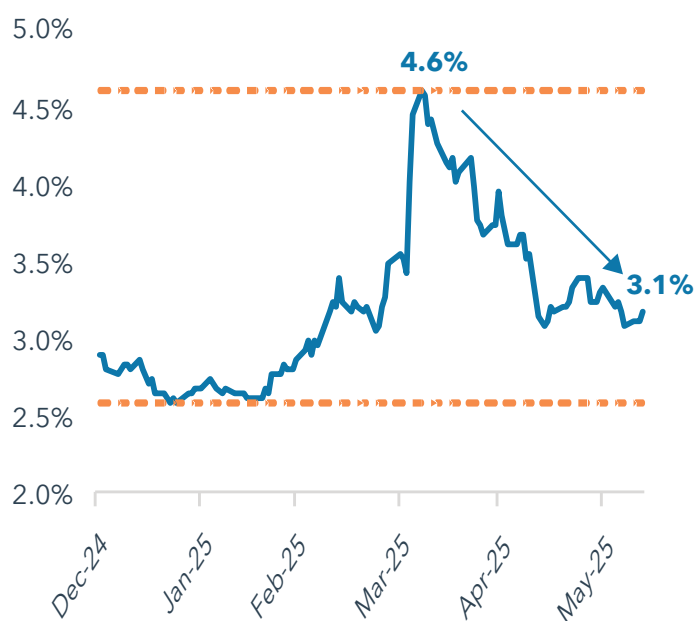
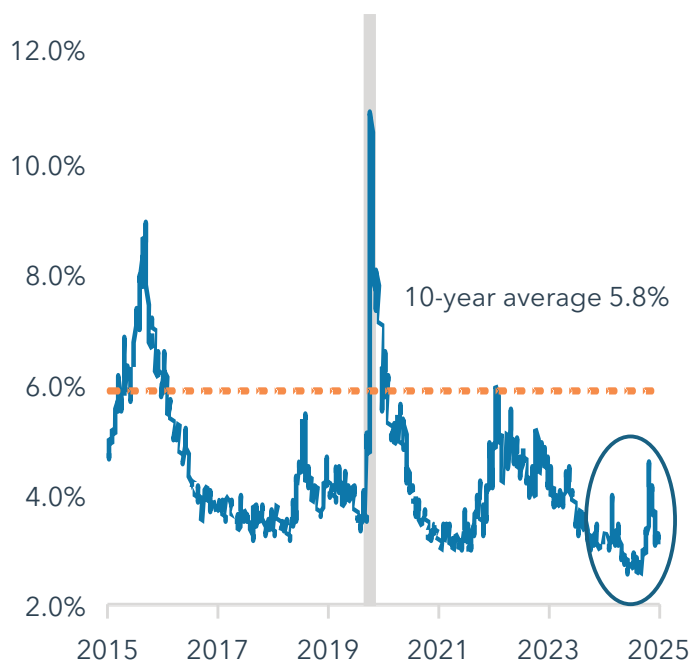
credit managers who have the scale and resources to engage in these types of bespoke transactions.

Similarly, unique opportunities are also available in the market for securitized credit. Credit risk transfer, also known as synthetic risk transfer, enables financial institutions to balance lending growth against their regulatory capital requirements. Here, established credit managers maintain an advantage in sourcing deals, negotiating terms, and efficiently executing transactions.

Risks: Sharply widening spreads and higher defaults; low dispersion and dampened volatility across fixed income; abrupt changes in liquidity in certain market segments.

Exhibit 18: ICE BofA Option-Adjusted Spreads Remain Low

ICE BofA US High Yield Index over U.S. Treasuries (10-year and year-to-date)



Source: Ice Data Indices, LLC, ICE BofA US High Yield Index Option-Adjusted Spread, retrieved from FRED, Federal Reserve Bank of St. Louis as of June 17, 2025. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.



Explanation of iCapital's Ratings Framework

iCapital's basis for assigning ratings is the research team's view of how the investment strategy will perform over the next three years relative to its respective category. For this purpose, the "category" is the asset class associated with investment strategies for which the research team provides coverage. For example, a rating for Growth Equity is relative to other strategies within the Private Equity category.

Strategy ratings are reevaluated at least semiannually with an emphasis on whether the outlook is materially different to affect how the investment strategy may perform over the next three years relative to its category.

Strategy Ratings:

- **Positive:** Investment strategies expected to outperform the category over the next three years.
- **Neutral:** Investment strategies expected to perform in line with the category over the next three years.
- **Negative:** Investment strategies expected to underperform the category over the next three years.

We use a three-year time horizon because it is roughly the average holding period for a private market asset. For hedge funds, we use the same strategy rating method but consider a 12- to 24-month performance outlook because of the higher mix of liquid assets that a typical hedge fund may own.

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INDEX DEFINITIONS

Cliffwater Direct Lending Index (CDLI): An asset-weighted index of over 11,000 directly originated middle market loans totaling \$264B. It seeks to measure the unlevered, gross of fee performance of U.S. middle market corporate loans, as represented by the asset-weighted performance of the underlying assets of Business Development Companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

ICE BofA High Yield Index: A measure that tracks the performance of U.S. dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

Morningstar LSTA U.S. Leveraged Loan Index: An Index designed to deliver comprehensive, precise coverage of the US leveraged loan market. Underpinned by PitchBook and LCD data, the index serves as the market standard for the US leveraged loan asset class and tracks the performance of more than 1,400 USD denominated loans.

MSCI EAFE Index: The MSCI Europe, Australasia, and the Far East (EAFE) Index which captures large and mid cap representation across 21 Developed Markets (DM) countries around the world, excluding the US and Canada.

MSCI Europe Index: The MSCI Europe Index captures large and mid cap representation across 15 DM countries in Europe.

NCREIF Open End Diversified Core Equity (NFI-ODCE) Index: The ODCE is a capitalization-weighted, gross of fee, time-weighted return index of investment returns reporting on both a historical and current basis the results of 38 open-end commingled funds pursuing a core investment strategy.

Proskauer Private Credit Default Index: Tracks senior-secured and unitranche loans in the U.S. and breaks down default rates by EBITDA and industry as well as default type.

S&P 500 Index: The S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 of the top companies in leading industries of the U.S. economy and covers approximately 80% of available market capitalization.

Secured Overnight Financing Rate (SOFR) Three-Month: The SOFR is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities. SOFR futures offer the leading source of price discovery and liquidity on SOFR. Three-Month SOFR futures are cash settled and based on a business-day compounded SOFR per annum during contract Reference Quarter.

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