

Private Markets: First Credit, then Equity

May 2024

Geoffrey Marshall, Senior Vice-President and Portfolio Manager Fixed Income and Lead
CI Global Asset Management

In terms of performance, private market assets generally had a better absolute year in 2023 but a weaker relative year compared to 2022. In that year, most parts of the private markets outperformed the double-digit losses experienced by their public market counterparts. In 2023, it was hard for any asset to keep up with the double-digit gains from U.S. equities, and the 'Magnificent 7' in particular. Private credit funds, benefitting from high yields, and private equity secondaries funds (think Dawson Capital Partners, who we have partnered with) generally posted the best returns and led fundraising. Even venture capital—our smallest allocation in the CI Private Markets funds—showed signs of life but companies are staying private longer and startups have been focusing more on cash flow than top-line growth at any cost. While fundraising has continued to prove difficult, accruing to new investors' benefit. I believe, the managers (general partners or 'GPs') with the best performance are attracting a disproportionate amount of inflows; the big are getting bigger.

In our view, private equity and private credit are at different points in their lifecycles. The more mature private equity market is reliant on exiting investments via sales or initial public offerings to return capital to investors before raising new money from investors. According to market data provider Preqin, a record US\$3.2 trillion was tied up in aging, closely held companies at the end of 2023. The echo of aggressive overnight interest rate hikes in 2022 continues to resonate as weak investor sentiment, high borrowing costs and interest rate volatility all dampen deal activity. While we have seen deal activity accelerate in the pharmaceutical space and pockets of energy, we are hopeful the excitement around AI and the 'Magnificent 7' will translate into broader investor confidence as 2024 progresses. Interest rate stabilization should also help boost valuations and spur new deal-making activity including take-privates (leveraged buyouts), sponsor-to-sponsor and sponsor-to-strategic-buyer transactions.

Private credit, on the other hand, has just hit puberty. From a supply perspective, U.S. banks face greater regulatory hurdles and smaller U.S. regional banks struggle with commercial real estate exposures, both of which limit their lending capacity and open the door for alternative lenders. In terms of demand, investors are responding to high yields and tight public market credit spreads and searching for fixed income returns without interest rate risk as they look to avoid a repeat of 2022. Private credit and all its iterations (direct lending, asset-backed lending, distressed, senior loans, etc.) are now a US\$5 trillion market and in five years' time could challenge the US\$8 trillion U.S. investment-grade bond market in size and relevance. Private credit managers are treading on the toes of large banks, increasingly underwriting billion-dollar loans on private equity deals.

We were active in the CI Private Markets funds in the first quarter. The Harbourvest position held in the managed solutions portfolios was exchanged for units in-kind of both CI Private Markets Growth and CI Private Markets Income. Likewise, the Adams Street position was exchanged into CI Private Markets Growth. In both cases, the funds stand to benefit from the addition of open-ended fund structures holding mature investments, both of which should benefit fund liquidity. The multi-asset managed solutions portfolios benefit from more diversified private markets exposures. Capital raised from new

subscriptions was deployed into two existing relationships and two new partnerships. The two existing relationships are Dawson Capital Partners Fund V (f.k.a. Whitehorse), a provider of financing on private equity secondaries—think of them as underwriting preferred equity stakes on fund investments so existing investors (limited partners or ‘LPs’) need not sell at substantial discounts—and Apollo Realty Income Solutions, a hybrid real estate debt and equity vehicle. The two new partnerships are 26North, a new private equity firm started by Apollo co-founder Josh Harris that has attracted elite talent from the likes of Brookfield and McKinsey, and Ardan Infrastructure, a European-based manager that should complement our Harbourvest position. We have concluded searches for a new private credit manager and a technology-focused venture capital manager and are currently conducting due diligence. We hope to have more details to share at the end of the second quarter.

Combined top 15 equity holdings as of April 30th, 2024 of the Assante Private Portfolios 40i60e Standard portfolio with Alphastyle exposure:

1. NVIDIA Corporation	6. Constellation Software Inc.	11. ServiceNow, Inc.
2. Microsoft Corporation	7. Novo Nordisk A/S Class B	12. Eli Lilly and Company
3. Amazon.com, Inc.	8. ASLM Holding NV	13. Rheinmetall AG
4. Constellation Energy Corporation	9. Schneider Electric SE	14. London Stock Exchange Group plc
5. Meta Platforms Inc. Class A	10. Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR	15. CRH public limited company



For more information, we encourage you to speak to your advisor or visit us at assante.com

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