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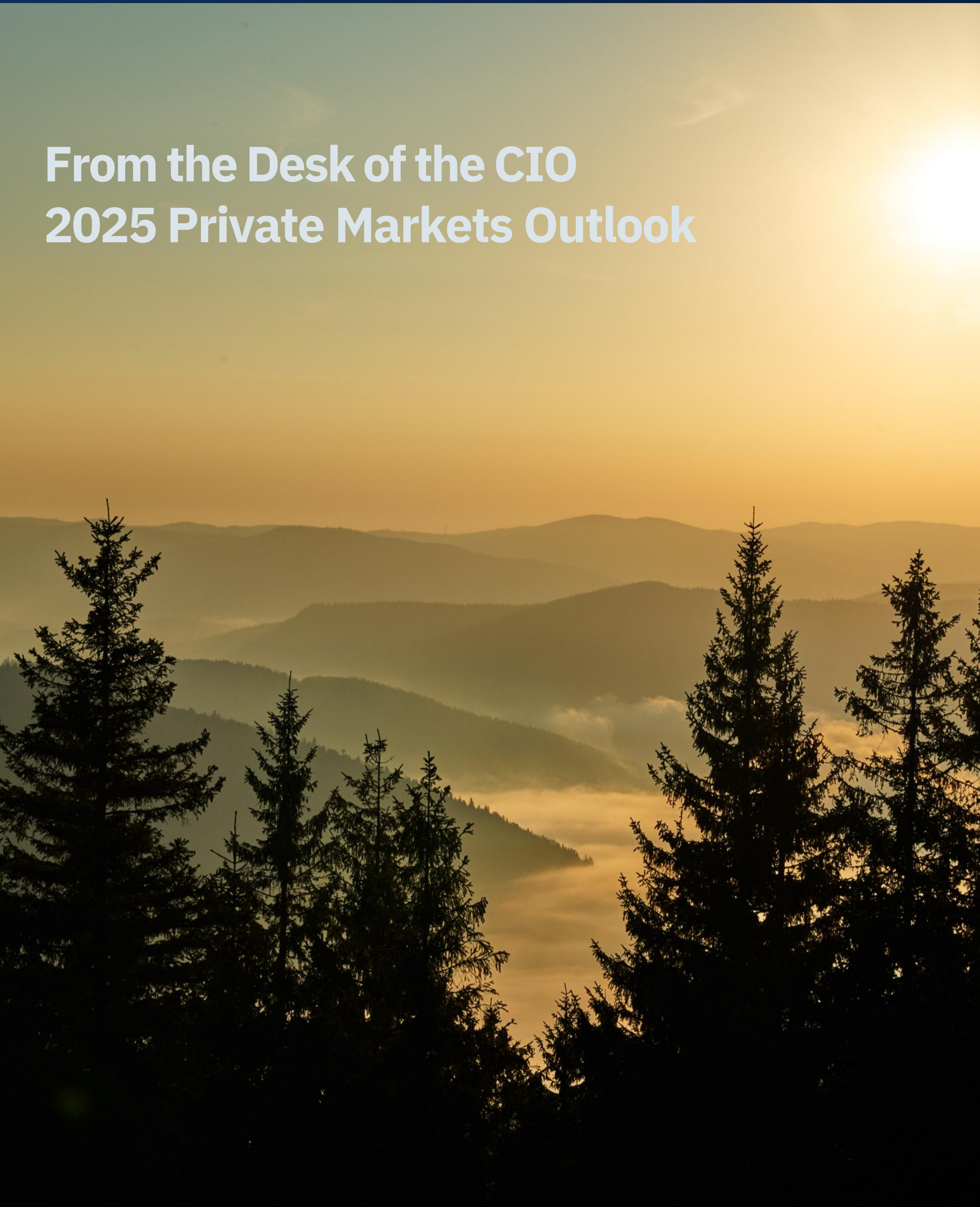
From the Desk of the CIO
2025 Private Markets Outlook



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An Obsiido Whitepaper

Sean O’Hara, CAIA

Chief Investment Officer & Lead Portfolio Manager

Obsiido Alternative Investments Inc. (“Obsiido”) is a Toronto based investment platform specializing in providing Canadian wealth advisors and their clients with private markets investment solutions through pooled vehicles, custom solutions and separate accounts.

On an annual basis, and in collaboration with our external investment consultant, Obsiido prepares an outlook covering core private markets asset classes to aid practitioners in portfolio positioning efforts. This is Obsiido’s second annual private markets outlook.

While financial markets have entered an era of macroeconomic volatility and uncertainty, experienced investors are seeing attractive opportunities to put capital to work. This is supported by a growing level of cautious optimism that the US economy will continue to experience steady and incremental growth. In these 'uncertain times,' investors who can drive value creation through asset transformation and identify themes supported by long-term secular trends will have the edge.

Table of Contents

Key Projected Themes for 2025

- **Uncertainty in Financial Markets** – Investors are having to adjust to a new era defined by macroeconomic and geopolitical uncertainty.
- **US Stronger for Longer** – Key Trump initiatives around protectionism, ongoing deficit spending, corporate tax cuts, and deregulation could boost capital spending, reignite mergers and acquisitions activity, and extend the US economic growth cycle.
- **Steepening Yield Curve** – Historically, this has been an indicator of a stable/strengthening economy. If the Federal Reserve continues its current rate-cutting trajectory, shorter-term rates may trend lower, while any growth acceleration could put upward pressure on longer-term rates. Future monetary policy decisions will depend on economic conditions and inflationary pressures.
- **Inflation** – Inflation may remain elevated in 2025 given Trump's initiatives around tax cuts, tariffs and immigration. Inflationary trends will ultimately depend on broader economic dynamics and policy implementation. A consensus has emerged of a "higher for longer" rates environment with a potential uptick in inflation.
- **Government Spending** - Governments across the globe are grappling with ballooning deficits, raising concerns over the sustainability of public finances, which may hinder fiscal support during future downturns
- **Public Equity Valuations** – The S&P 500 is currently trading at a PE multiple of 25x (75th Percentile is 22x). Outside of the "Mag-7", which trade at a median 31x forward earnings, equity valuations are more reasonable. The S&P 493 trades at 19x forward earnings.
- **Corporate Fundamentals** – Expected to remain healthy, and lower interest rate expectations are likely to enhance the overall outlook.

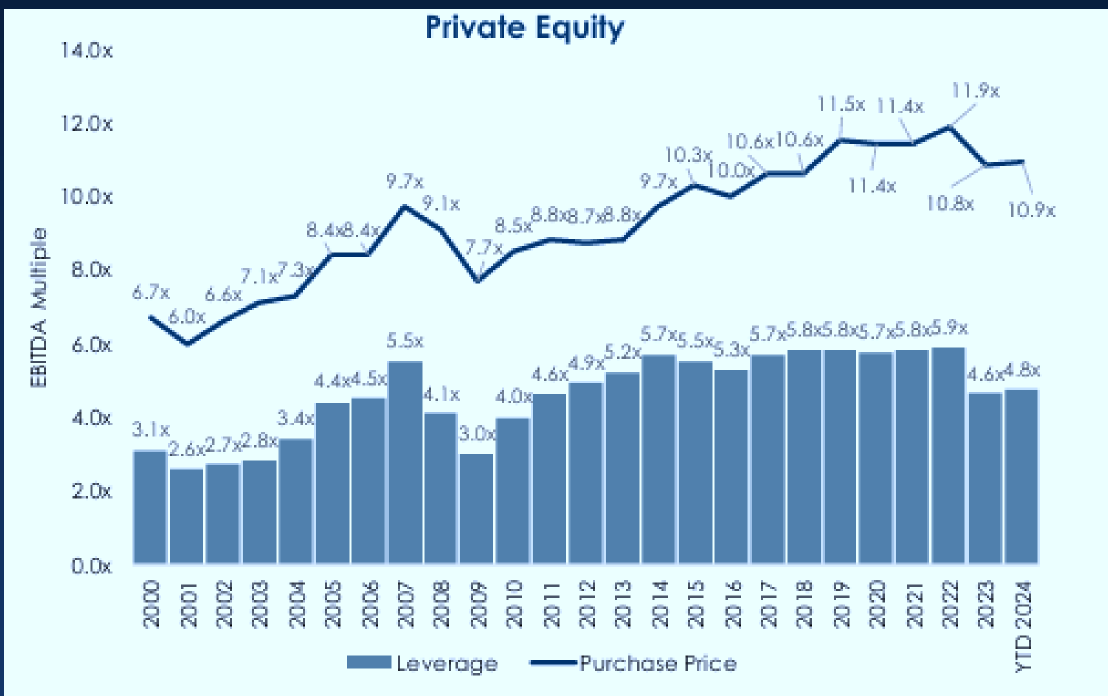
Private Equity

After two challenging years for private equity in 2022 and 2023, driven by the steepest interest rate hikes in two decades, 2024 brought relief with the start of a monetary-loosening cycle. Additionally, global recessionary risk that concerned the market in 2024 did not materialize, and the industry appears better positioned entering 2025.

Private Equity is expected to remain the asset class with the highest return potential amidst pressures on public equities driven by elevated valuations. As the new Trump administration pushes more of a deregulatory agenda, deal activity across the corporate and private sectors in 2025 is expected to increase. Given the climate of uncertainty, value creation and exposure to critical secular trends are becoming increasingly important differentiators for private equity investors.

Private equity entry valuations have demonstrated stability compared to more volatile public equity valuations. Entry multiples are slightly higher than average 2023 levels, but still below valuations from the pandemic-era when interest rates were at record lows. As of Q3 2024, the average private equity entry EBITDA multiple stood at a 25% discount to the average Russell 2000 EV / EBITDA of 14.3x[1]. Also supportive of private equity is the fact that leverage multiples are declining as sponsors make greater equity contributions in their deals. Leverage multiples are now at levels last seen in 2011.

Exhibit 1 – Private Equity Valuation & Leverage Levels[2]



In the secondaries market, the early signs of recovery in exit activity, combined with lower interest rates, has driven a contraction in discounts. This trend will likely benefit GP-led secondaries strategies such as continuation funds, as sponsors leverage these vehicles to generate liquidity and hold quality assets for longer. GP-led deals have been the fastest growing segment of private equity secondaries since 2018 and accounted for almost half of all secondary transactions in 2022 and 2023.

Sources: [1]Asset Consulting Group, [2]Bloomberg, S&P

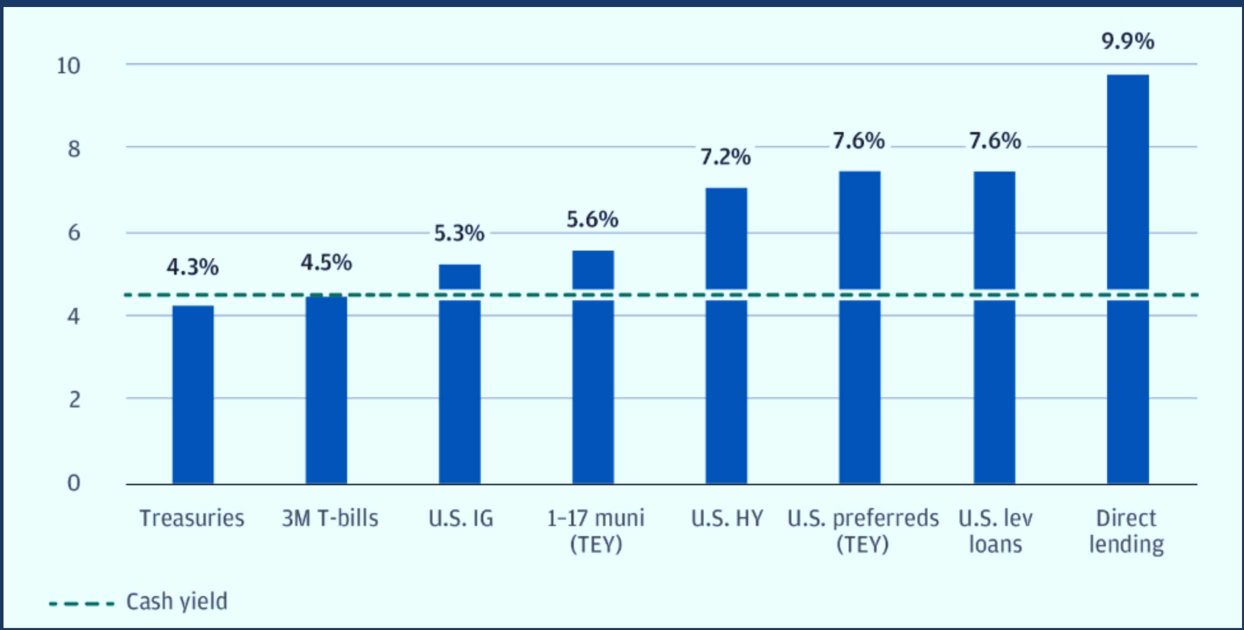
Private Credit

Private credit, direct lending specifically, experienced significant growth in 2024. Companies are pivoting increasingly to the private credit markets, not so much as a response to the level of rates, but more as a reaction to how sponsors and management teams are looking to finance their business. In 2024, for example, over 80% of leveraged buyouts were financed by private credit[1]. Consider that there is currently $2.5 trillion in private equity dry powder according to S&P compared to $500 billion in private credit dry powder; private credit stands to be a big beneficiary of this very large funding gap.

Relatively high base rates ensure private credit's continued appeal. Despite the recent cuts, base rates are still relatively high compared to just a few years ago, and likely will remain elevated compared to the pre COVID cycle.

Even though private credit spreads tightened in 2024 as public credit markets reopened and banks becoming increasingly active, they remain attractive. At the time of writing, new private credit sponsor-backed transactions for middle-market companies are being priced at around 5% above base rate (non-sponsored transactions even higher), generating all-in yields (including OID) of around 10%[2]. Direct lending yields are expected to remain attractive versus more liquid credit and high yield alternatives.

Exhibit 2 –Direct Lending Yields Remain Attractive[1]



Higher interest rates, however, over the last several years have laid bare some of the weaknesses in business models that were dependent on a cheaper cost of debt capital. Given macroeconomic volatility and uncertainty, investors should continue to prioritize investments in first-lien, senior-secured, good covenants, top of the capital structure opportunities.

Source: [1]Blue Owl, [2]Oaktree data as of Dec 19th, 2024, [3]Bloomberg Finance LP, data as of November 8, 2024

Private Real Estate

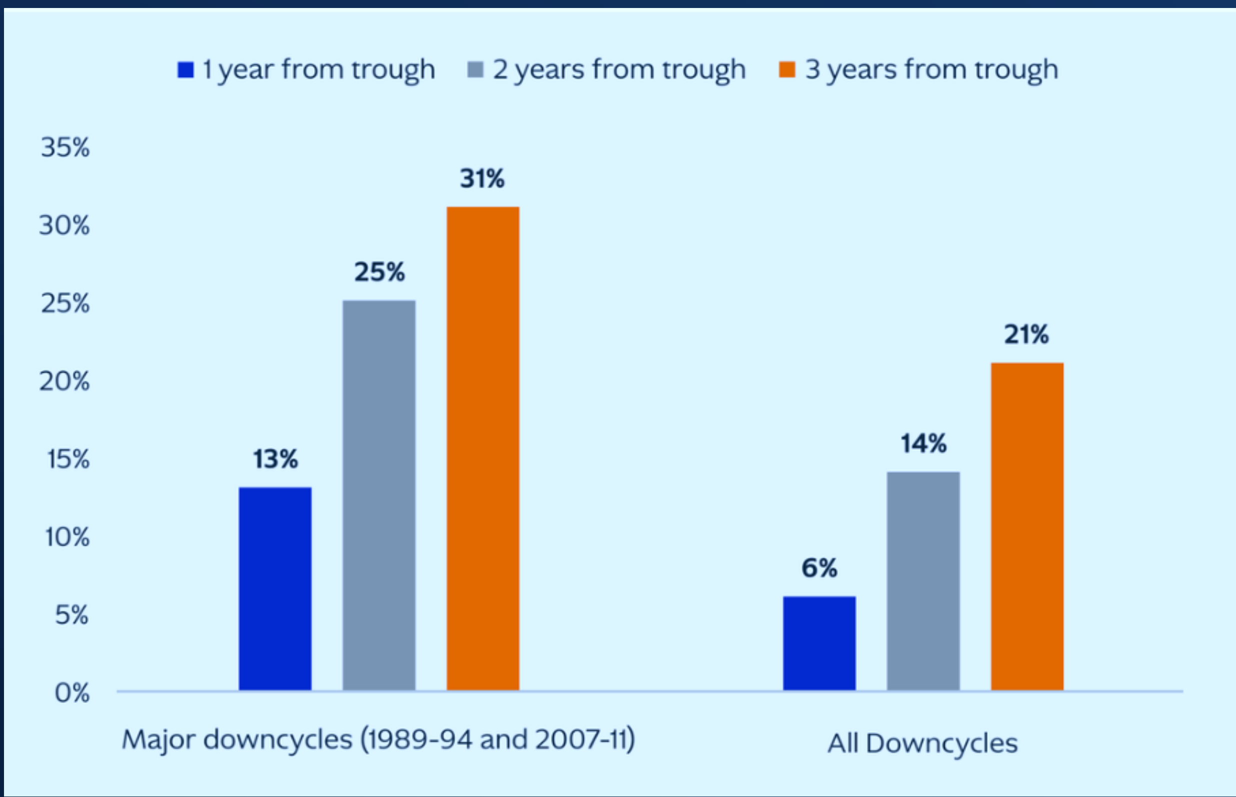
Central banks around the developed world are now reducing short-term interest rates which tends to be positive for real estate equity investors, unless they are accompanied by a steep fall in economic activity. Capitalization rates, a measure of the net operating income a property produces against its purchase price, are starting to decline as borrowing costs fall, leading to higher valuation multiples.

As property values begin to stabilize, real estate appears positioned for a potential upcycle. One factor helping to drive an uptick in transactions is the amount of commercial real estate loans coming due over the next 12 months. Asset owners faced with potentially costly refinancings are increasingly choosing to sell. This dislocation in capital structures across property types is leading to a potentially attractive entry point, particularly for those investors prioritizing high-quality assets that are not fundamentally challenged.

According to research produced by KKR, valuations in private real estate equity are currently trading below 30% of both their 20-year average and the recent market high of 2021 and are attractive relative to most other asset classes. Today's risk-reward appears to be compelling.

KKR's analysis of the real estate down cycles since 1953 shows that US commercial property prices rose 21% in the three years after a trough, with the most severe down cycles showing even higher increases.

Exhibit 3 – Real Estate Returns After a Market Trough[1]



[1]Source: Green Street. Average of all real estate downcycles from 1953 onward, based on quarterly peak-to-trough. CPPI valuation peaked in April 2022. Past performance is not indicative of future returns.

Unlisted Infrastructure

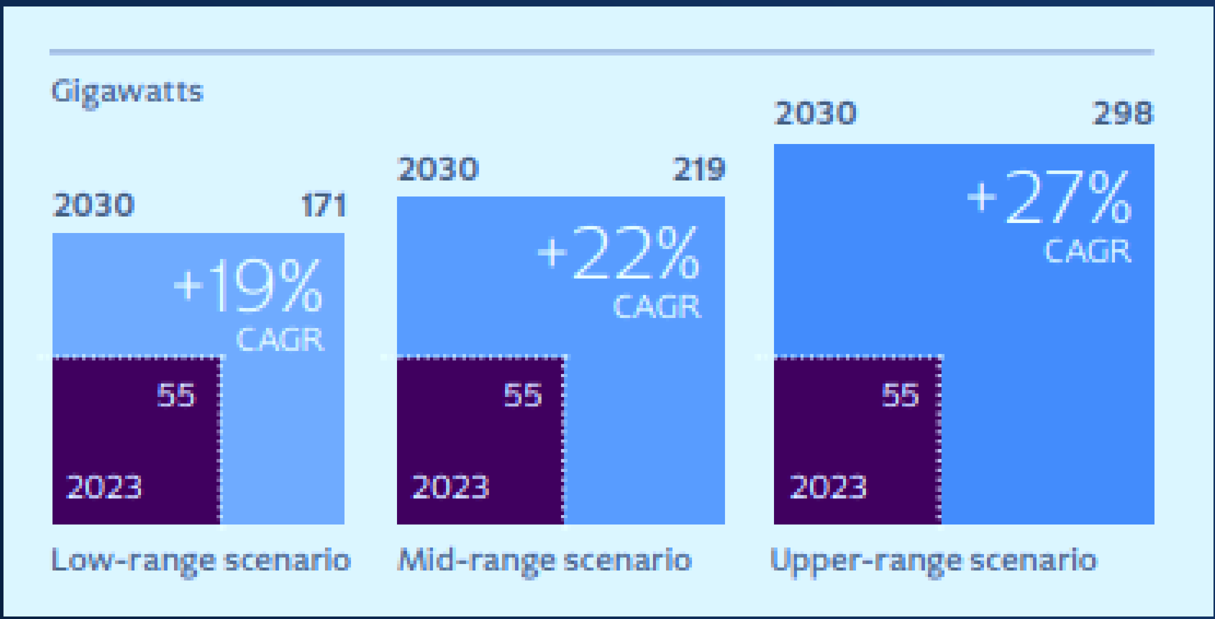
The opportunities in infrastructure continue to be defined by a few themes and megatrends. The themes of energy transition, digitalization, and their convergence in digital power are structural shifts that will continue to unfold over the coming years and decades. The scale of the issues trying to be solved here are so enormous that to win, it requires investors with access to scaled capital, deep sector and technical experience, the ability to form creative partnerships, and geopolitical perspective.

The energy transition is one of the most significant megatrends in infrastructure today. The estimated annual investment need is in the trillions of dollars, and infrastructure investment will be critical for both decarbonizing the economy and increasing the resilience of communities. Infrastructure investors will need to take action to decarbonize existing infrastructure assets and make significant investments in new infrastructure that is supportive of a low-carbon economy.

Supported by transformative technologies like artificial intelligence, the increased demand for data creates a compelling backdrop to invest in the hard assets enabling the digital ecosystem. Data centers are one of the key drivers behind rising power demand. Artificial intelligence, connected devices, smart cities, virtual reality technology, and driverless cars all consume and produce an enormous amount of data that requires vast and fast computing to analyze and process.

The result is that the amount of global data storage and processing could increase at an annual rate between 19%-27% between now and 2030. According to McKinsey estimates, developers will have to build in a mere six years twice the data center capacity brought online since 2000 to avoid a data processing deficit.

Exhibit 4 - Global Demand for Data Center Capacity[1]



[1]Source: McKinsey Data Center Demand Model as of October 29, 2024. Note: The charts show three scenarios representing an upper, lower, and mid-range estimate of demand, based on analysis of AI adoption trends, growth in shipments of different types of chips and their associated power consumption, and the typical compute, storage, and network needs of AI workloads. Demand is measured by power consumption to reflect the number of servers a facility can house.

Canadian Farmland

Canadian farmland performed strongly from 2021 to 2023, driven by low interest rates and high commodity prices. However, with declining commodity prices and rising interest rates, transaction activity has slowed, resulting in more subdued performance in 2024.

Over the next 1-2 years, there is expected to be continued pressure on profit margins due to:

Downward pressures on commodity prices: Strong crop inventories for major crops and robust supplies, expected over 2025, are likely to keep prices under pressure.

Elevated input costs: Although fuel and fertilizer prices have decreased from recent peaks, input costs, particularly for farm equipment, remain high and are expected to continue straining margins.

Higher interest rates: While rates may continue to decrease in 2025, they are expected to remain above the 2021-2022 levels, resulting in higher financing costs and making the leasing vs buying land decision more attractive.

Improved crop yields and a weaker Canadian dollar may provide some relief (as crops are typically priced in USD) to top line revenues. However, overall, elevated price pressures will continue to impact profit margins in the short term, resulting in lower transaction activity and subdued farmland performance. That said, this short-term volatility could provide an opportunity for investors to deploy capital in the space as margin pressures often prompt farmers to seek additional capital.

Lastly, the potential trade actions of the incoming US administration are creating uncertainty. The proposed 25% US tariffs on Canadian imports are viewed as a negotiation tactic and while the risk is real, it is expected that the new administration will prioritize US-China trade tensions, reducing the likelihood of long-term tariffs. While this can result in increased short-term volatility, Canada's continued diversification of export markets into non-US markets further strengthens the Canadian agricultural sector.

Long-term, the solid fundamentals of Canadian farmland remain intact. Broader financial and demographic shifts in Canadian agriculture, such as underinvestment and an aging farmer population looking to transition farmland ownership, along with the long-term effects of climate change (e.g., water availability and shifting growing regions favoring Canada's crop production) will continue to enhance the resilience and attractiveness of Canadian farmland as an investment asset.

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Obsiido is a technology enabled investment management firm that specializes in researching, structuring, and enabling investments in core alternative investment opportunities within private markets and hedge funds. Obsiido is registered as an investment fund manager in Ontario and as a portfolio manager and exempt market dealer in Ontario, British Columbia and Alberta.

Obsiido is a wholly-owned subsidiary of Obsiido Capital Management Ltd.
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For more information, contact Obsiido:

invest@obsiido.com

www.obsiido.com

647-424-0402

36 Toronto Street, Suite 850,
Toronto, ON, Canada, M5C 2C5