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INVESTING THROUGH THE CYCLE: PANTHEON'S VIEW ON PRIVATE MARKETS POSITIONING IN TIMES OF UNCERTAINTY

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Summary: Despite the volatility that has plagued global markets over the first half of the year, we see strong reasons for optimism across our private markets specialism and remain committed to our consistent, resilient approach to investing. Leveraging our perspective across all asset classes in the private markets, we are focused on deploying capital to the most attractive opportunities across markets – regardless of the uncertainty in the wider macro landscape.

At the mid-point of the year, while the macroeconomic environment remains volatile and uncertain, our outlook for private markets remains cautiously positive, and we are committed to investing through the noise. Our investment approach will be focused on seizing pragmatic opportunities. It can be difficult to time private markets, but we can be opportunistic, particularly around the secondary market. We want to maintain exposure across the cycle, and we'll continue to invest throughout any uncertainty.

Deal flow could slow down in the near term, although some of our market-wide secondary intermediaries report that the pipelines are getting full, and they expect a busier fourth quarter. We continue to see larger transactions across infrastructure and credit, and we're advising teams to lean in with GPs and with intermediaries.

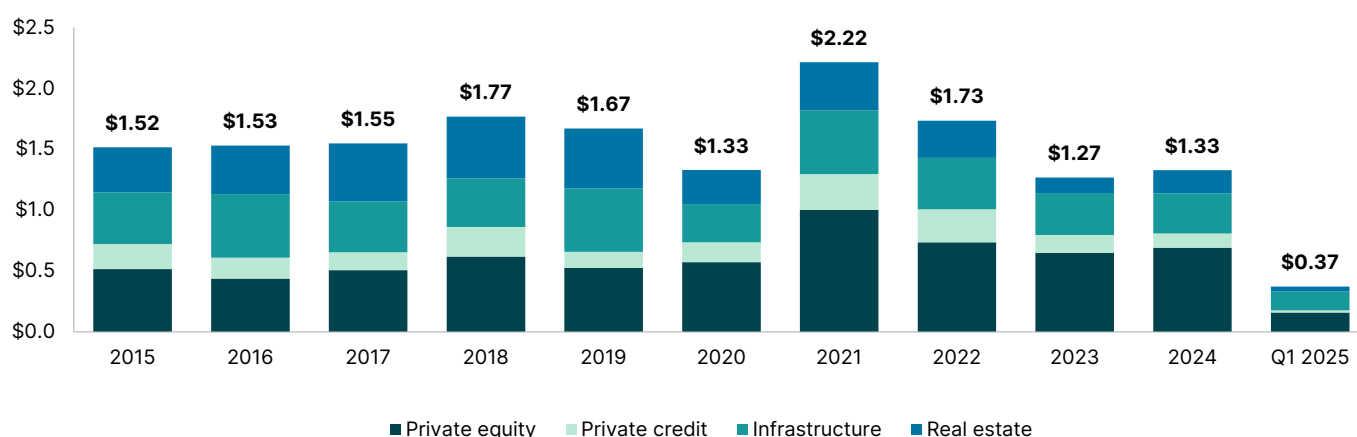
Our investment committees are always worried about downside risk, and in recent months we have had to add tariffs, the potential of recession, and supply chain issues onto their list of concerns. But while the investment memos

become longer, this means we ensure that the deals we commit to have a margin of safety given the wider macroeconomic and geopolitical uncertainty we are dealing with. We will continue to move ahead with new investments, but maintain a sense of caution.

There are several key themes we see across private markets that are influencing our positioning in this space:

- **Liquidity pressure:** The liquidity challenges are not only causing a headwind to fundraising but also causing a long tail of aging deals sitting in portfolios. It has brought about the rise of alternative forms of liquidity away from full exits, whether NAV loans, continuation vehicles, or preferred structures, while we've also seen an uptick in the number of minority recapitalizations. Across the global private markets, deal volumes rose around 5% last year, but these were relatively depressed in the context of the previous decade.

Private markets deal activity (\$tn)

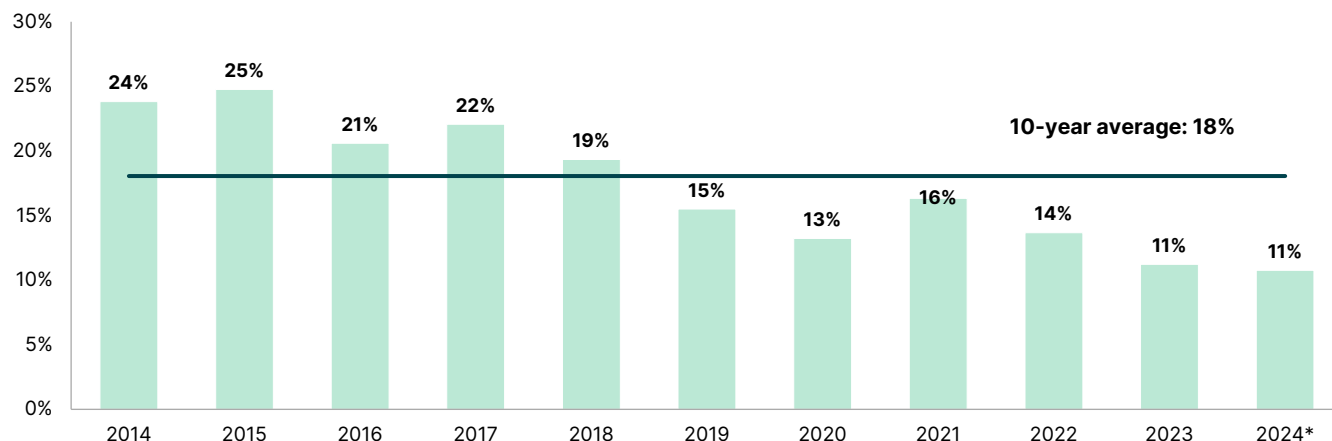




The first quarter of 2025 brought some good activity, but we do now expect a near-term slow-down, with some GPs reporting that processes are being paused or pushed out. The markets need a some period of time where they have clarity on trade deals and the tariff situation before confidence can return to the market and activity picks up again.

Distribution yields remain well below the 10-year average, with below-average distributions as a percentage of NAV for six years running, leading to headwinds to fundraising.

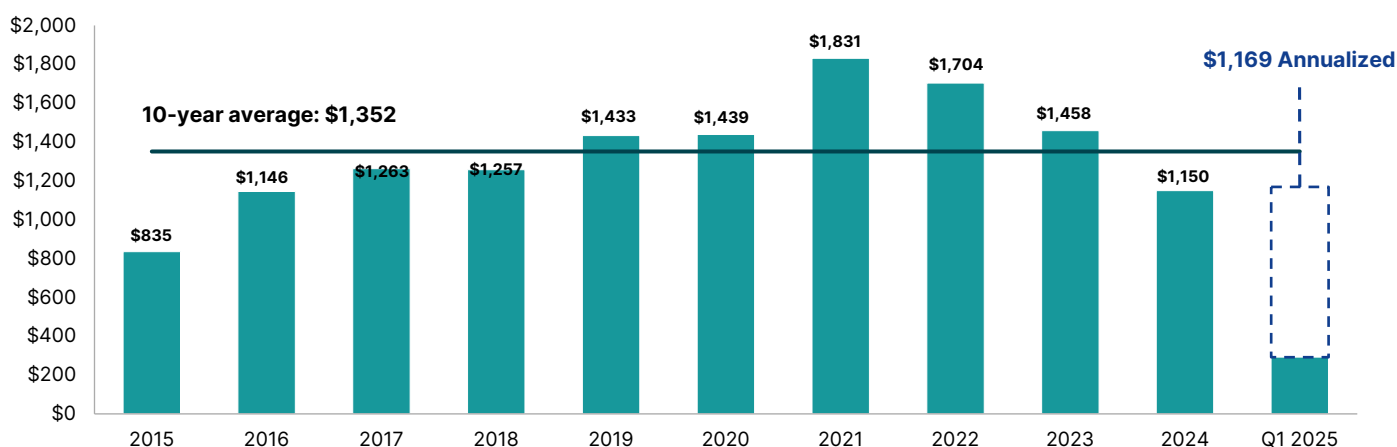
Global private capital distributions (as a % of NAV)



This is a multi-year problem that will not be resolved with one good year of exits. The market needs to see several years of good exit activity to get back longer-term averages of 20–25%.

This backdrop is having a dampening effect on fundraising, with volumes last year down about 37% from the peak and about 15% from the 10-year average. It is taking longer to raise funds and an increasing number of GPs are missing their stated targets.

Global private capital raised (\$bn)

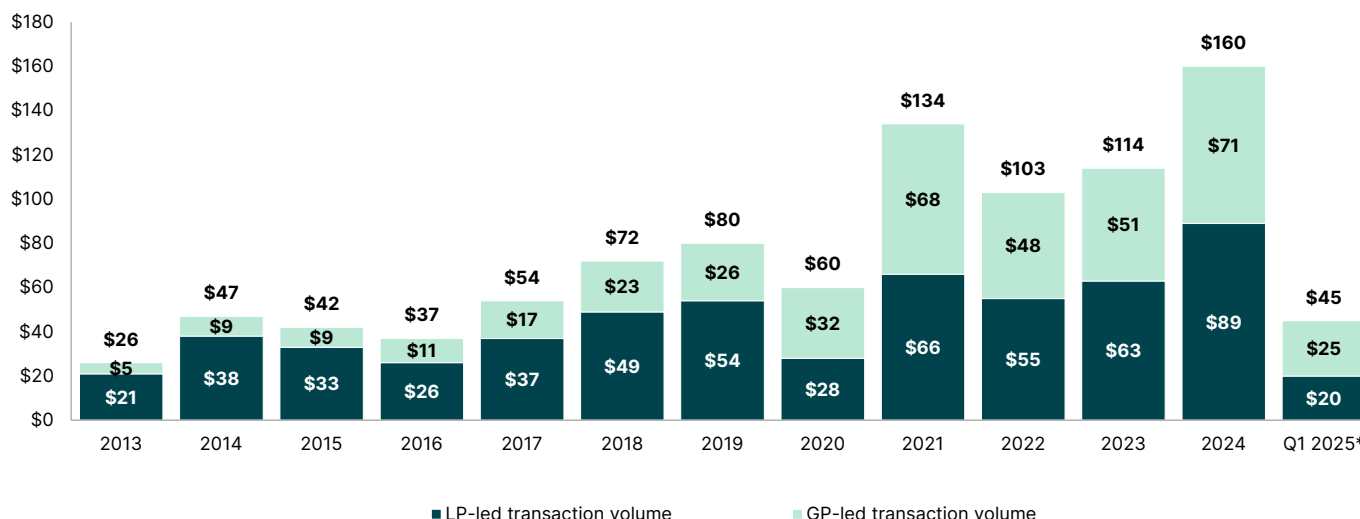




- **Secondaries rise:** This liquidity pressure is also driving robust activity in the secondary market. Last year, the secondaries market reported a record \$160

billion reported, and the first quarter of 2025 also started strongly, with record levels of LP- and GP-led transactions.

Secondary market transaction volume (\$bn)



We expect strong secondaries volume to continue for some time. Some market participants predict secondaries volume could grow to over \$250bn by 2028¹. Part of this increase is structural – driven by the growth of the private markets in general – and part of it is cyclical. LPs now regard secondary transactions as a core part of their active portfolio management strategy, and there are no longer negative connotations for LPs to sell funds into the secondary market. We're also seeing a growing adoption of these tools in less mature assets classes which will also drive growth going forward – in private equity, the most mature part of the secondary market, the percentage of NAV that trades in the secondary market reaches around 2%–3% every year, while the infrastructure and private credit markets have room to run before they reach these figures.

financial institutions from middle-market lending, private credit now represents around 90% of lending to the mid-market, up from around 30% a decade ago. With a wall of public corporate debt reaching maturity over the next couple of years, this could present another opportunity for private credit to continue to grow its share.

- **Resilient valuations:** While coming down from their peak, valuations remain stubbornly resilient, with those for good assets staying at elevated levels. A question remains as to whether we are currently in a period of adjustment. We do see pockets of more reasonable valuations and having a broad, global sourcing funnel is critical to uncovering those opportunities.
- **Private credit expansion:** Private credit continues to be a strong theme as the fastest-growing area of private markets. With the retreat of banks and other regulated

- **Democratization:** Institutional fundraising continues to increase, but there's more potential growth from the private wealth channel. With around a \$150 trillion of private wealth assets still largely under-allocated, the democratization of the private markets is an important ongoing development. While AUM from wealth currently comprises around 15% of private markets, Bain expects this to grow to around 26% over the coming decade. Through semi-liquid structures individual investors are finding a better way to access the private markets opportunity, with about \$350 billion now invested in private markets through these semi-liquid vehicles.
- **AI opportunity:** Artificial intelligence will have a number of impacts on the private markets. AI is a significant investment opportunity and represents a high portion of venture investing today. AI is also a risk and is increasingly coming up in our investment committees as a risk factor to certain business models. GPs are also employing AI in their portfolio companies and it should be an important productivity driver in the years ahead.

¹ Greenhill, February 2025, "Global Secondary Market Review FY 2024".



Our investment lens across asset classes

While keeping these timely themes in mind, throughout periods of stability or of uncertainty our core underlying investment approach remains consistent. We continue to focus on the middle market across asset classes and we lean into transactions where we feel we are an advantaged buyer leveraging our GP relationships and information edge. We look to invest in companies and assets that are more resilient to recession and have strong long-term demand drivers. A disproportionate amount of our capital has been invested into priority sectors with real structural tailwinds such as digitalization, healthcare efficiency, power generation, industrial re-shoring, education services, and decarbonization. These are all segments where we see resilience, especially in periods of growth uncertainty.

Conversely, we remain underweight on deals from sectors with high levels of cyclicity, with low exposure to consumer discretionary, retail, and energy firms, those with exposure to GDP-linked segments, and over-leveraged industrials.

Our deployment rate is on pace to repeat our performance in 2024, with some asset classes already ahead of last year's total figures, and we continue to see both GP- and LP-led opportunities on offer with attractive pricing.

We are heading into the second half of the year with confidence and with a focus on buying quality where we can. While we are keeping a healthy dose of caution, we continue to keep investing through the noise.





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