



INSTITUTIONAL INSIGHTS

Creative Disruption: Private Markets in 2026

Views expressed as of February 1, 2026.



“While not quite a process of creative destruction, we see a new period of *creative disruption* taking shape in 2026. Challenges of the past several years forced a sudden rethinking of approaches to liquidity, asset allocation and manager selection that are now translating into more permanent changes in the private markets landscape.”



John Ivanac
Head of US Institutional
Alternatives

Franklin Templeton Private Markets

Franklin
Venture Partners



Overview

- Private markets are entering an era of creative disruption rather than simply returning to pre-pandemic patterns, as the 2022 shock has forced novel approaches to liquidity, portfolio construction and selection across all asset classes. Future growth will be driven less by scale alone and more by expansion into new asset classes, greater reliance on secondary markets and innovative liquidity pathways.
- Institutional investors are reevaluating how they measure private market performance as extended liquidity constraints and slower exit activity reshape the landscape. Distributions to paid-in capital (DPI) has emerged as a priority metric alongside traditional internal rate of return (IRR) and multiples, reflecting a fundamental shift toward valuing the return of capital—not just its growth. This emphasis is driving allocators toward income-generating strategies, assets with clearer exit paths and investments with shorter J-curves.
- The private markets landscape is diversifying beyond traditional institutional vehicles as wealth-oriented evergreen funds gain momentum, supported by structural shifts and potential inclusion in employer-sponsored retirement plans. This expansion of the investor base could ultimately benefit the broader ecosystem by creating deeper capital pools, invigorating secondary markets and providing alternative exit pathways for segments experiencing slower liquidity environments.
- In **private equity (PE)**, exit activity is picking up, but the recovery remains uneven. Private equity firms are deploying a broader mix of exit pathways to address a growing backlog of portfolio assets—leading us to believe secondary markets will continue to expand and offer increasing opportunities.
- In **venture capital (VC)**, the market is concentrating around a small number of large firms and AI-focused startups. This bifurcation means top-tier companies can still achieve exits, while a long tail of VC-backed companies may become stranded. To adapt to these new market dynamics, limited partners (LPs) should prioritize general partners (GPs) who can drive true value creation and portfolios built on industry-leading companies with credible exit strategies.
- As the **secondaries** market scales and diversifies, it is evolving into a durable, strategic allocation within private markets. For allocators, the combination of expanding deal breadth and a growing wave of supply suggests a multi-year window to access high-quality assets with greater selectivity and negotiating leverage.
- As **private credit** matures, returns are likely to be driven less by broad exposure to mainstream direct lending and more by selectivity across strategy, structure and geography. With signs of credit stress emerging and fewer lender protections in large direct lending deals, expanding into less crowded segments—such as core middle-market lending, asset-based financing and certain global opportunities—may improve diversification and risk-adjusted outcomes.
- **Commercial real estate (CRE)** is entering a different kind of cycle than before, where outcomes are likely to diverge meaningfully by property type and geography. Certain alternative sectors—supported by structural demand and more attractive entry conditions—appear positioned to drive performance as the cycle evolves. For allocators, success will depend less on broad market exposure and more on a targeted approach to property selection that is supported by enduring long-term themes.

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Introduction

A period of creative disruption

Private markets have delivered sustained growth over the past decade, with global AUM now approximately \$15 trillion. While the slowdown of 2022–23 interrupted that momentum, the longer-term trajectory remains intact. Global private markets are still expected to grow at roughly 10% per year, approaching \$25 trillion in AUM by 2029. After a rocky start last year, enthusiasm appears to have returned to private markets in 2026. Overall, global private markets saw \$1.4 trillion in new flows in 2025, representing annual asset flow growth of over 10% compared to 2024.¹

Viewed in oversimplified hindsight, we see private markets have moved from a period of steady pre-2019 growth, through the stimulus-fueled expansion of 2020–21, and into a post-2022 liquidity reset that continues to influence behavior today. The next phase is shaping up less as a return to the old playbook and more as a period of creative disruption—where the sudden shock to the system in 2022 has changed the trajectory and texture of the private market landscape and forced novel approaches to unexpected challenges. As markets scale, the laws of large numbers may temper headline growth rates, but they are also accelerating the

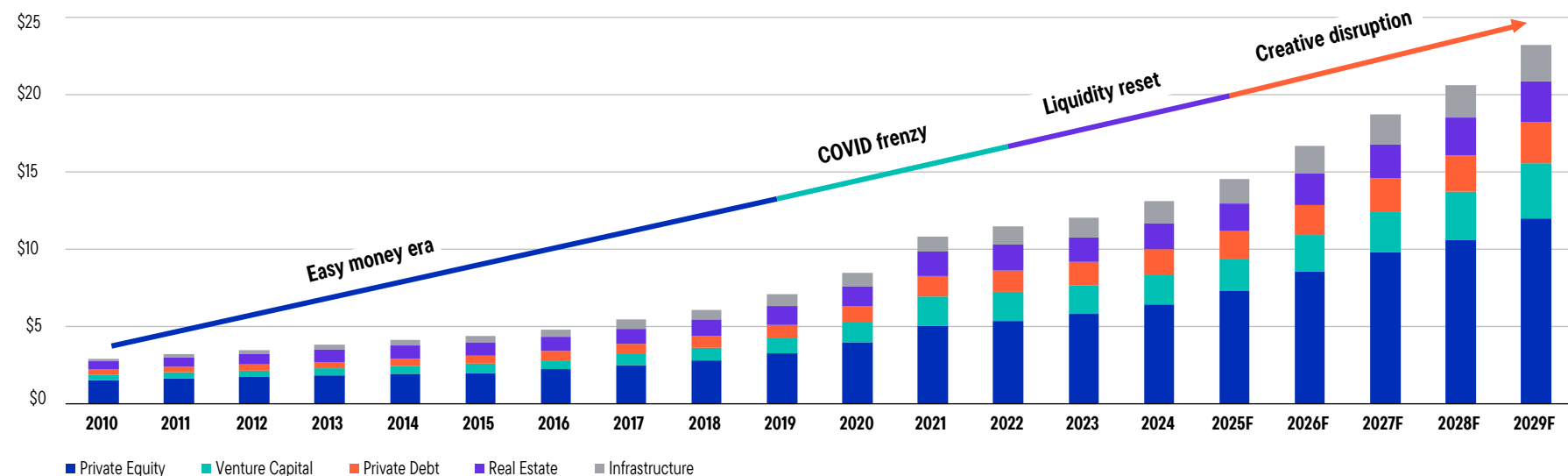
mainstreaming of sectors, structures, and transaction types that were once considered niche. A challenging interest rate, inflation and exit environment has already begun to reshape long-held assumptions, particularly around liquidity, portfolio construction and asset selection.

These shifts are visible across asset classes. Venture capital has seen capital concentrate in a small number of super-scale companies, reducing the universe of viable monetization events. Secondary markets have moved to the center of investor focus, while continuation vehicles—including single-asset transactions—are becoming a permanent feature. Private credit has expanded beyond middle-market corporate lending into asset-based strategies, and in real estate, traditional sector leaders are giving way to alternative property types.

The next era of private markets growth is therefore likely to be defined less by scale alone, and more by expansion into new asset classes, greater reliance on secondary markets and the development of new pathways to liquidity.

Private Markets Are Charting a New Course

Global Private Market AUM (\$tn) and Forecasted Growth



Source: Preqin. Future of Alternatives 2029 Report. Estimates as of October 2025.

Institutional investor priorities are shifting

Institutional investors have traditionally approached private markets with a long-term mindset, committing capital with the expectation that value creation and distributions take many years to materialize. That assumption has been increasingly tested since the 2022 market drawdown, which exposed the practical limits of patient capital.

Three years on, liquidity constraints remain a central consideration for allocators. Roughly half of institutions report that the denominator effect continues to influence portfolio decisions, with many remaining above target allocations across private equity, real estate, private credit and infrastructure. At the same time, distributions have lagged historical norms. Recent US PE buyout vintages are delivering distributions at approximately half the levels seen in prior cycles, reinforcing concerns around the timing and predictability of exits.

Distributions from Recent Vintages Continue to Lag US PE Buyout Fund DPI by Age and Vintage Year

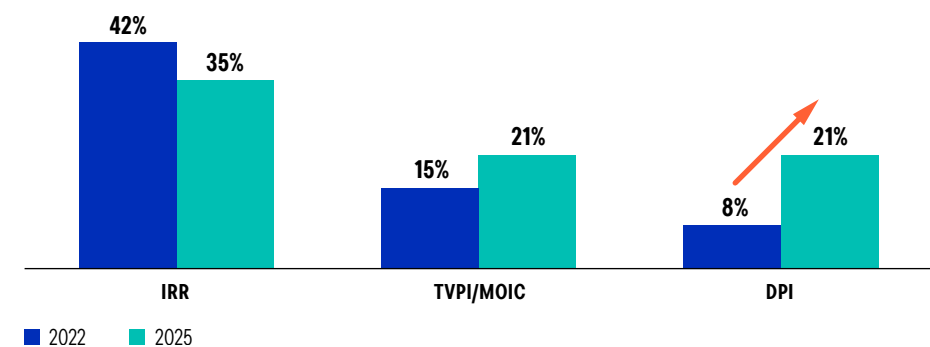
Vintage	Time Since Inception								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
2006–14	0.04x	0.06x	0.11x	0.19x	0.32x	0.46x	0.67x	0.88x	1.12x
2015	0.03x	0.06x	0.14x	0.23x	0.35x	0.59x	0.91x	1.02x	1.07x
2016	0.01x	0.06x	0.15x	0.14x	0.29x	0.61x	0.82x	0.99x	
2017	0.08x	0.05x	0.11x	0.17x	0.39x	0.60x	0.72x		
2018	0.01x	0.03x	0.06x	0.15x	0.32x	0.36x			
2019	0.02x	0.04x	0.13x	0.20x	0.28x				
2020	0.02x	0.08x	0.09x	0.12x					
2021	0.02x	0.05x	0.08x						
2022	0.02x	0.03x							

Source: PitchBook, Q4 2025 Quantitative Perspectives. Data as of 6/30/2025. Note: 2006–2014 values are averaged across each time bucket. Shading represents the difference from mean 2006–2014 values.

This extended period of muted distributions has driven a lasting shift in how performance is evaluated. As a measure of fund performance, DPI has moved closer to parity with IRR and multiple-based metrics for many LPs, reflecting a heightened focus on the return of capital. We expect this reweighting of performance priorities to persist through 2026 and beyond. As private markets mature, LPs will need to rethink pacing, liquidity reserves, and strategy mix to ensure portfolios remain flexible even if exit environments lag historical averages for years.

With a renewed emphasis on returning capital to investors, we expect shifts in both manager selection and asset class preferences. For PE and VC managers, this will favor portfolios built around companies that have a clear path to exit. From a sub-asset class perspective, income-generating strategies and those with shorter J-curves are likely to gain share, benefitting areas such as yield-producing assets and PE secondaries.

A Need for DPI May Shift How Private Allocations Are Built Most Critical Performance Metrics Indicated by LPs



Source: McKinsey LP Survey. Survey conducted January 2025.

The LP base and access vehicles are evolving

Private markets are entering a phase in which growth is supported by a broader range of strategies and structures as well as a more diversified investor base.

Wealth-oriented evergreen funds, for example, are gaining renewed attention as structural and regulatory conditions begin to align. More than 350 evergreen vehicles have launched since 2019, and the current environment may support even broader adoption.² Wealth managers are increasingly evaluating these structures for client portfolios, and policymakers have shown openness to expanding access to private assets through employer-sponsored retirement plans. PitchBook estimates wealth-focused evergreen assets at approximately \$430 billion today, with projections reaching \$1.1 trillion by 2029—an annual growth rate of roughly 20%.

For institutional investors, a key question is whether a broader investor base and newer fund structures could heighten liquidity risk across private markets. In our view, those concerns are manageable. Even under optimistic growth assumptions,

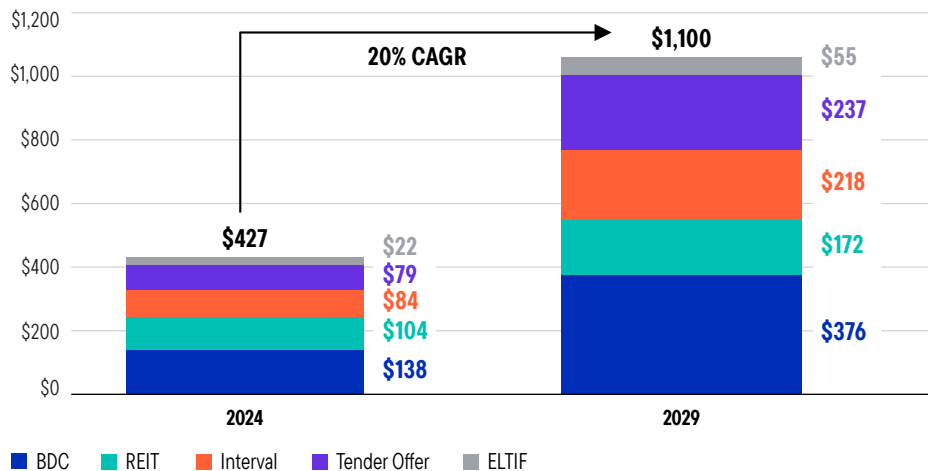
wealth-focused evergreen funds are likely to remain a small fraction of traditional drawdown vehicles over the next several years. In addition, managers have incorporated multiple liquidity safeguards, including elevated cash buffers, redemption gates, credit facilities and partial allocations to assets with relatively higher liquidity and comparable return profiles.

In the short term, wealth-oriented evergreen funds may heighten competition for deals in crowded market segments, making it critical for institutions to partner with GPs who have differentiated sourcing capabilities disciplined approaches to valuation and underwriting.

Over time, incremental capital from wealth channels may strengthen private markets more broadly. Deeper capital pools could support secondary market activity, encourage fee competition, and help reinvigorate segments experiencing slower exit environments.

Wealth-Focused Evergreen Funds Poised for Significant Growth

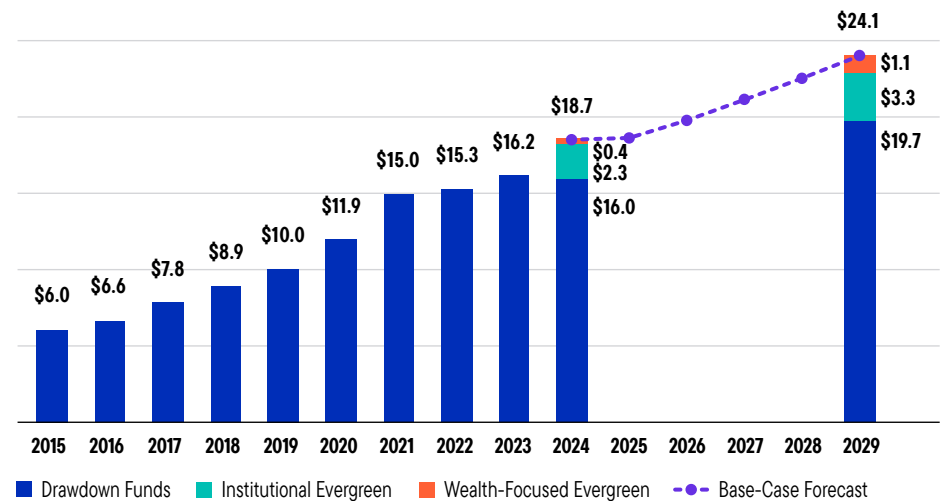
Wealth-Focused Evergreen Fund Growth Forecast (\$bn)



Source: PitchBook. 2029 Private Market Horizons Report. PitchBook estimates made on 4/14/2025.

Wealth-Focused Evergreen Funds Dwarfed by Drawdown Vehicles

Drawdown and Evergreen Fund AUM Forecast (\$tn)



Source: PitchBook. 2029 Private Market Horizons Report. PitchBook estimates made on 4/14/2025.

Private equity & venture capital

Starting to recover, but the exit window looks crowded

Despite the uncertainties created by tariffs last year, PE deal activity has been robust. In 2025, deal value exceeded \$1 trillion for only the second time in history, after reaching about \$1.3 trillion in 2021.³ Megadeals drove this growth: 150 transactions over \$1 billion totaled nearly \$570 billion, surpassing 2021's peak of \$530 billion.

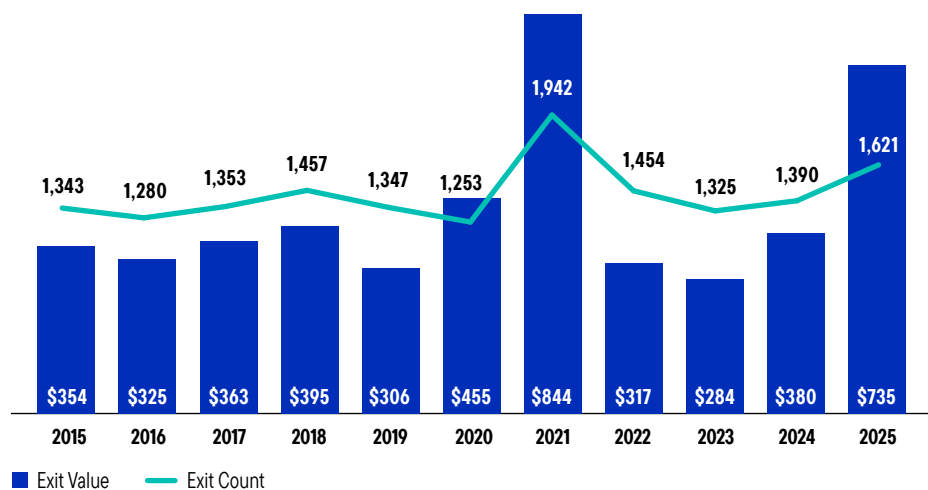
After a brief decline in 2022 and 2023, global M&A and PE buyout multiples are back near the highs of 2021. Unsurprisingly, a look under the hood shows that these megadeals are skewing aggregate valuation figures higher. This highlights the need for diversification across the size spectrum as other areas may hold better value.⁴

Exit activity in PE is also beginning to show signs of recovery. Transaction volumes have improved, and distribution rates are trending higher off of recent lows. From an LP perspective, however, cash returns are still running well below historical norms. While distributions have increased, they remain about half the levels investors became accustomed to in prior cycles. Moreover, a meaningful share of recent distributions has come from alternative liquidity sources rather than traditional exits.

In 2025, roughly a quarter of total distribution yield was generated through mechanisms such as continuation vehicles, dividend recapitalizations and NAV loans.

PE Exits Hit Highest Level Since 2021

US PE Exit Value (\$bn) and Count



Source: PitchBook. 2025 Annual US PE First Look Report. Data as of 12/31/2025.

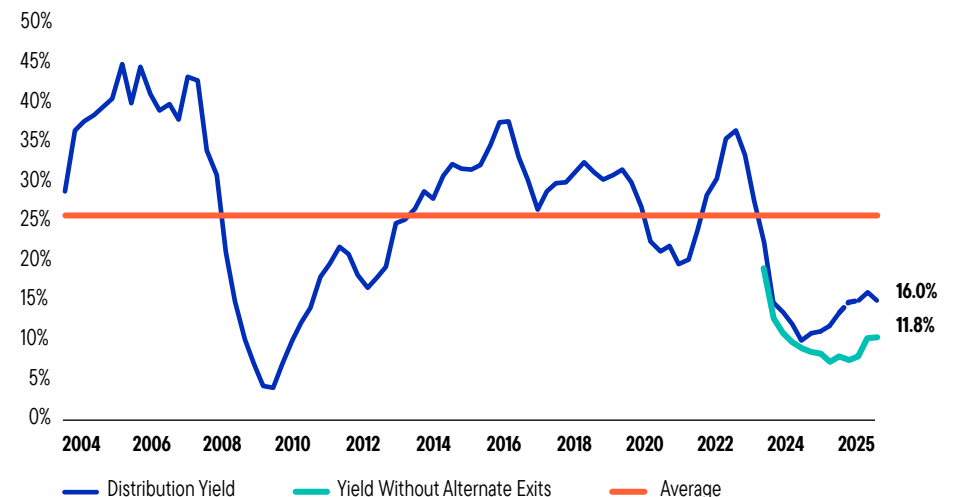
When isolating distributions derived solely from traditional methods like M&A and IPO activity, the implied distribution yield is closer to 12%, underscoring how dependent near-term liquidity has become on non-traditional pathways.

The PE inventory backlog continues to build with the US PE universe now comprised of more than 13,000 companies which is about eight years worth of inventory at the current exit pace.⁵ Approximately 30% of these assets are seven years or older—past typical exit timelines. Another 37% are 4–6 years old, approaching their prime exit window.⁶ While exits have begun to accelerate, the accumulation of aging assets remains a significant challenge for PE firms and liquidity-seeking LPs. Unless exit activity continues to hit new records every year and meet or outpace deal making, this backlog will continue to weigh on the industry.

In our view, this dynamic reinforces the structural role of secondary markets to act as a pressure relief valve. As traditional exit channels take time to recover, secondaries are positioned to play an increasingly central role in facilitating liquidity and portfolio rebalancing across private markets.

Large Backlog of Inventory Is Keeping Distribution Yields Low

US PE Buyout Fund Distributions as a % of Beginning NAV



Source: PitchBook. Q4 2025 Quantitative Perspectives. Data as of 9/30/2025.

Definition of an “exit” is changing

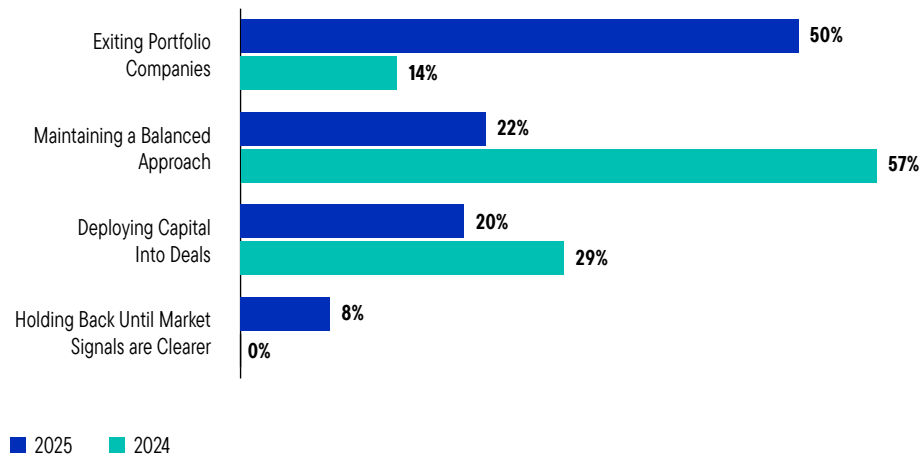
Against the backdrop of a growing inventory of maturing assets, it is not surprising that exits have become the dominant concern for PE investors. In a recent PitchBook survey, half of respondents ranked exiting portfolio companies as the top focus for PE in 2026. However, that is easier said than done. While private companies are staying private for longer for a number of reasons, it is evident that the bar has been raised for IPOs.

Rather than relying solely on traditional M&A or public listings, LPs and GPs are increasingly utilizing a wider set of liquidity solutions to address capital needs while preserving ownership, relationships and upside. Continuation vehicles, in particular, have moved from an occasional feature to a structural component of the PE ecosystem, with accelerating growth in recent years.

While a sustained recovery in traditional exit markets could moderate the pace of growth in these alternative pathways, we believe they are likely to remain a durable part of the exit toolkit. Even as corporate acquisitions and IPOs reaccelerate, continuation transactions may continue to expand in parallel, supported by record levels of capital raised by secondary managers. Taken together, these dynamics suggest that exit activity is not simply restarting, but evolving—reshaping how liquidity is generated across private markets.

Exiting Portfolio Companies a Key Focus for Investors

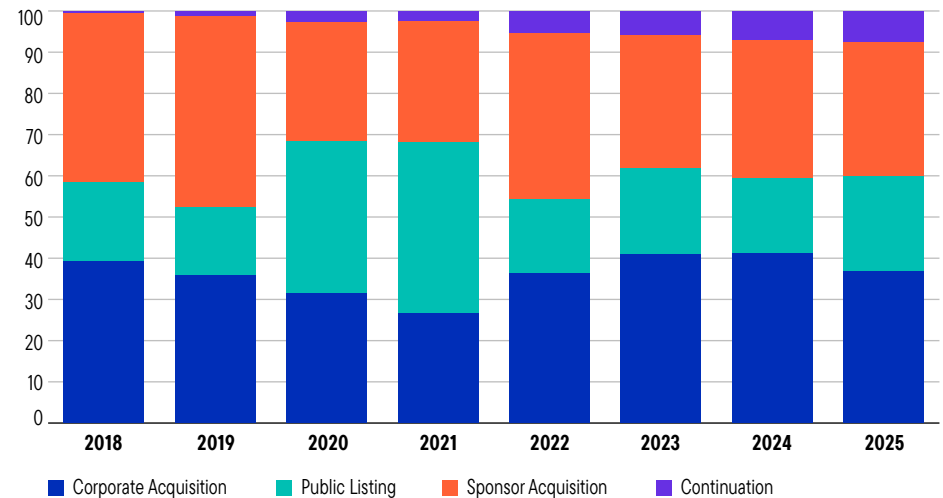
Most Important Focus for PE in 2026



Source: PitchBook. PE Investor Survey 2026. Data as of 10/31/2025.

Continuation Strategies Now a Meaningful Share of Exits

Share of Global PE Exits by Type



Source: PitchBook. 2026 US PE Outlook Report. Data as of 10/31/2025.

Selectivity is key as AI drives a venture capital resurgence

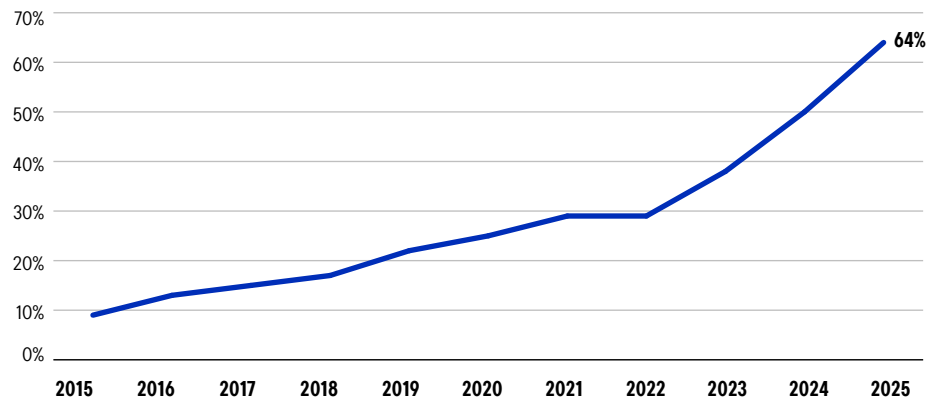
Venture capital activity in 2025 was shaped by AI exuberance and capital concentration in outsized deals. The result appears to be a K-shaped recovery: a narrow cohort of companies attracting seemingly insatiable investor demand, alongside a long tail of startups struggling to raise capital as liquidity constraints persist. This dynamic points to a market increasingly defined by a handful of clear winners and a growing pool of potentially stranded assets.

Investor conviction has become highly concentrated in AI and machine learning. In 2025, the sector accounted for roughly 65% of total venture deal value. Four of the five most valuable VC-backed companies over the past year were AI-focused, with funding rounds implying valuations ranging from approximately \$75 billion to \$500 billion.⁷ A look across the different VC funding stages reveals that AI and AI-related startups are almost universally commanding premium valuations versus their non-AI peers.

In this environment, selectivity is critical. While capital continues to flow into early-stage experimentation and ambitious moonshots, we believe competitive intensity will leave relatively few durable winners. Our focus is on mid- to late-stage companies with defensible moats and clear paths to scale. In AI, this favors foundational model providers and infrastructure-layer businesses that benefit from scale advantages, deep enterprise integration and high switching costs. By contrast, many application-layer startups remain vulnerable to rapid commoditization and competitive feature replication as the ecosystem matures.

AI Is Driving Force Behind VC Signs of Recovery

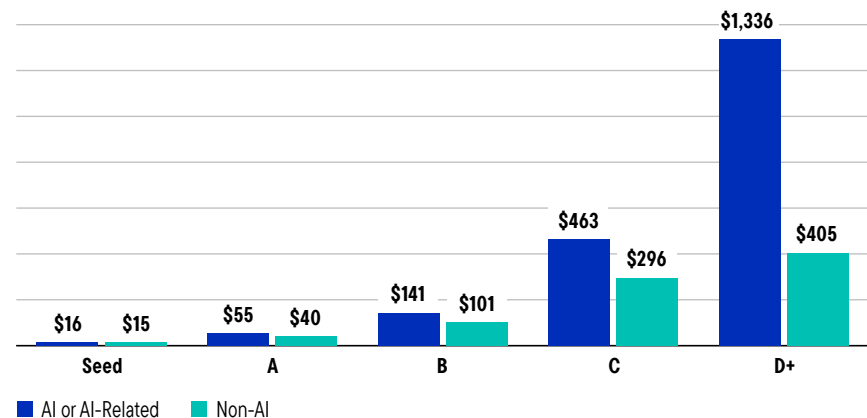
AI Share of Total VC Deal Value



Source: PitchBook. Q4 2025 NVCA Venture Monitor First Look Report. Data as of 12/31/2025.

AI Firms Commanding Premiums Versus Non-AI Peers

2025 Median VC Pre-Money Valuation by Series (\$mn)



Source: PitchBook. Q4 2025 Analyst Note: Should Seed Investors Ride the High and Pay the Price? Data as of 9/30/2025.

Rising concentration may rewrite venture playbook

There is a historic build-up and concentration of value in the VC market. At the end of 2025, there were about 795 unicorns (firms with >\$1 billion valuations), 65 decacorns (>\$10 billion valuations), and 6 hectocorns (>\$100 billion valuations). In aggregate these “corns” now make up 51% of the total venture market capitalization, up from just 26% in 2020.⁸ New deal activity is equally concentrated with the top 10 US VC deals representing 38% of total deal volume in 2025—surpassing last year’s all-time record of 19% and multiples greater the long-term average range of 8–15%.⁹ We believe this concentration has significant implications for the VC exit landscape.

While IPO activity has begun to reemerge, the path to a broader venture exit recovery is unlikely to resemble past cycles. Rather than a broad-based reopening, the next 12 months may be characterized by a bifurcated outcome. Exit volumes could recover slowly through incremental IPOs and selective M&A, or total exit value could rebound more sharply—driven by a small number of exceptionally large transactions.

Several indicators support the latter scenario. Mega-sized exits have accounted for a growing share of total realized value, and recent IPOs have been heavily

oversubscribed, pointing to meaningful pent-up demand for mature, high-quality offerings. At the same time, the backlog of potential IPO candidates is historically large. The 100 most valuable VC-backed companies are collectively valued at more than \$3 trillion, with a disproportionate share concentrated in the very largest five names. A limited number of successful offerings from this group could materially lift exit value statistics, even if activity remains narrow.

Beyond this top tier, however, the outlook is more challenging. A long tail of later-stage VC-backed companies faces uncertain exit prospects, suggesting that capital may remain tied up for extended periods or need to be written off. In our view, this environment reinforces the importance of scale and selectivity. While venture has always been a game of outsized winners with a long tail of losers, successful venture portfolios may increasingly depend on an even smaller number of top-tier companies to drive returns, with longer holding periods and more uneven distribution pacing along the way.

Historic Build-Up and Concentration in VC Value Ready to Exit— But a Long Tail of Uncertain Exits

Valuation of VC-Backed Private Companies (\$bn)



Source: Top five and next 95 VC-backed company valuations are the average of PitchBook and Notice.co estimates. Long tail is the sum of the next 10,000 later-stage VC-backed companies, based on valuations from PitchBook’s database. Data as of 12/15/2025.

Investment implications

In private equity, exit activity is picking up, but the recovery remains uneven. Private equity firms are deploying a broader mix of exit pathways to address a growing backlog of portfolio assets—leading us to believe secondary markets will continue to expand and offer increasing opportunities. In venture capital, the market is concentrating around a small number of large firms and AI-focused startups. This bifurcation means top-tier companies can still achieve exits, while a long tail of VC-backed companies may become stranded. To adapt to these new market dynamics, LPs should prioritize GPs who can drive true value creation and portfolios built on industry-leading companies with credible exit strategies.

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Defense tech

In 2025, defense-related venture activity set new annual records with \$49 billion in deals and \$54 billion in exits.¹⁰ Defense technology is emerging as a meaningful private capital theme, shaped by shifting geopolitical realities and a renewed focus on national and global security. The structure of the US defense industry has evolved significantly over time. Reduced spending after the collapse of the Soviet Union led to extensive consolidation, leaving a small number of dominant prime contractors. While this consolidation improved efficiency, it also narrowed competition and slowed the pace of innovation.

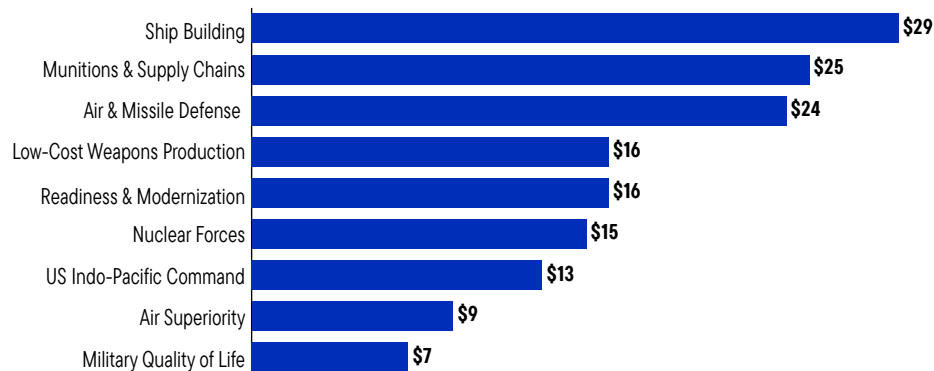
Today's environment reflects a broader form of strategic competition that extends well beyond traditional battlefields. Security considerations increasingly span areas such as space, cyber, communications, data, and information systems, creating demand for a more diverse and technologically sophisticated defense ecosystem. Meeting these needs requires not only established defense firms, but also a growing cohort of technology-driven startups capable of rapid development and iteration—drawing increased interest from private capital and venture investors.

Defense spending has risen meaningfully in response. US defense outlays have surpassed \$1 trillion annually for the first time (with proposals of increasing to \$1.5 trillion by 2027), while NATO defense budgets have nearly doubled over the past decade to \$500 billion annually.¹¹ Early signs of momentum are also visible at the startup level: government engagement with venture-backed defense companies has increased sharply with \$6.6 billion awarded in 2024, yet these firms still represent a very small share of overall defense procurement, suggesting considerable runway for growth.

For allocators, defense technology may represent a distinct structural opportunity within private markets. Success in this space depends less on disruption alone and more on execution—specifically, the ability to navigate procurement processes, regulatory complexity, and partnership-driven integration with incumbent defense platforms. In many cases, innovation paired with collaboration is likely to prove more durable than outright disruption.

Growing US Defense Needs Open the Door for Venture Innovation

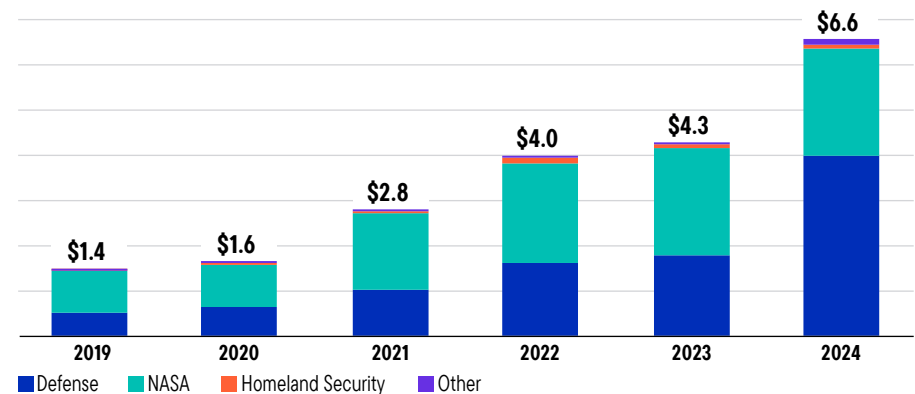
Defense Funding in the “One Big Beautiful Bill” (\$bn)



Source: Council on Foreign Relations. Data as of July 2025.

US Spend on Defense Startups Rises Nearly 5x Since 2019

US Government Spend on Top 100 VC-Backed Defense Startups (\$bn)



Source: Silicon Valley Defense Group NatSec100 2025 Report.

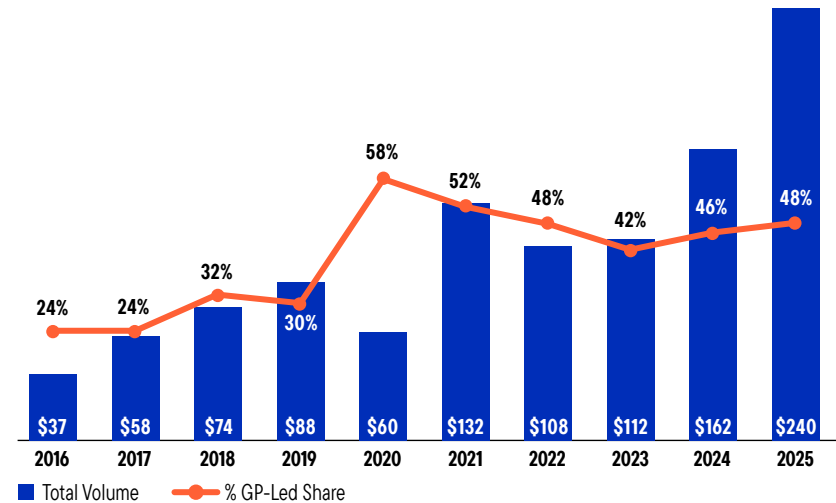
Secondaries

Transformed from a tactical tool to a strategic core allocation

The secondaries landscape has entered a new phase of growth and maturation. Transaction volume hit a record \$240 billion in 2025, a \$78 billion and 48% increase from 2024. The growth reflects sustained momentum driven by rising demand for liquidity, a broader and more diverse seller base, and an expanding set of transaction types. What was once a niche segment has evolved into a core feature of private markets.

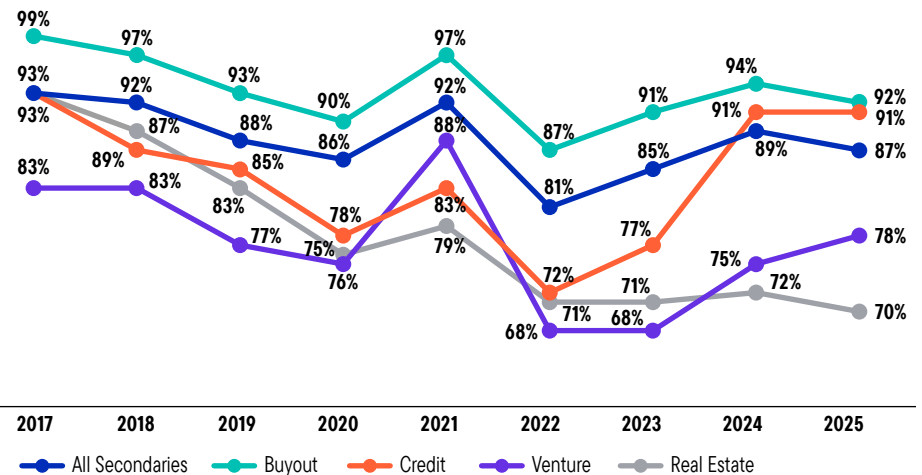
GP-led transactions continue to represent about half of overall activity, reinforcing their role as an integral component of the secondaries ecosystem. Recent inflows and elevated dry powder have supported a recovery in pricing following the dislocations of prior years. In our view, these dynamics underscore that secondaries are no longer a tactical solution for liquidity alone, but a durable allocation within private markets portfolios.

Robust Volume Reflects Structural Growth Trend Secondary Transaction Volume (\$bn) and GP-Led Share



Source: Jefferies. 2026 Global Secondary Market Review. Data as of January 2026.

Dry Powder Absorbs Supply, Supports Pricing ... for Now Secondary Pricing for LP Portfolios (% of NAV)



Source: Jefferies. 2026 Global Secondary Market Review. Data as of January 2026.

A broadening opportunity set

Both the LP-led and GP-led secondaries markets are broadening beyond their traditional foundation of PE buyout transactions. Venture capital, private credit and real estate secondaries now represent a meaningful share of transactions. While buyout strategies continue to represent the largest share of transaction volume, the mix of asset flow is becoming increasingly diverse.

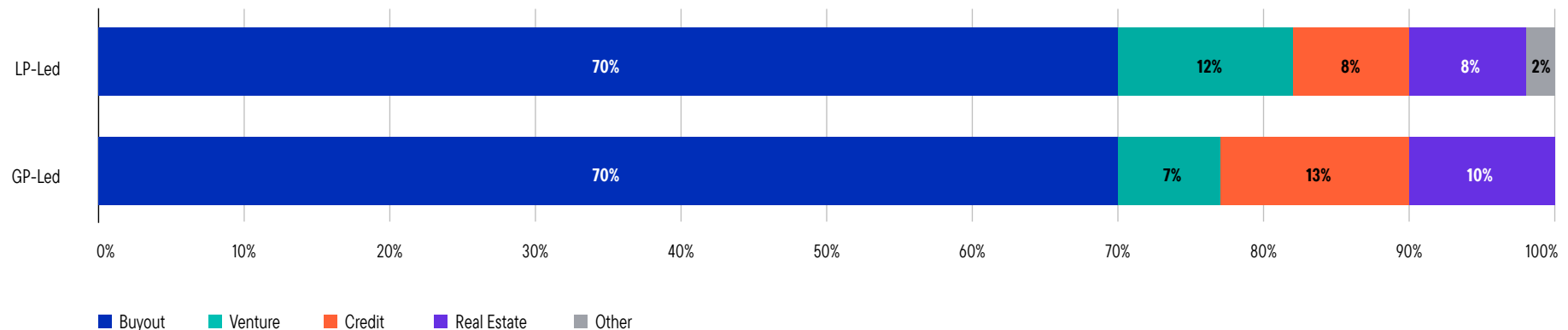
For instance, GP-led credit secondaries grew rapidly in 2025, becoming the fastest-growing GP-led asset class and representing about 13% of transaction volume. Multiple large CV deals over \$1 billion came to market, with some closings exceeding \$3 billion.

As private markets continue to scale—potentially reaching \$20–25 trillion in capitalization by 2029—the traditional exit channels of M&A and IPOs are unlikely to provide sufficient liquidity on their own.¹² In that context, annual secondary transaction volume of roughly \$240 billion remains relatively modest, suggesting substantial room for expansion as secondary markets absorb a broader set of asset classes and strategies.

We believe the growing and increasingly varied supply of secondary transactions supports a larger, more durable market, with diversification across asset types enhancing both scale and opportunity for investors.

Secondaries Market Is Expanding Beyond Its PE Buyout Roots

2025 Transaction Volume by Strategy Type



Source: Jefferies. 2026 Global Secondary Market Review. Data as of January 2026.

A multi-year wave of supply hitting the market

The scale of the opportunity in private market secondaries continues to expand. Looking only at traditional buyout, global private equity NAV now exceeds \$4 trillion, reflecting years of strong capital deployment alongside persistently muted exit activity. More than half of portfolio companies have been held for over four years, while distribution rates remain well below historical norms. Recent high-profile transactions—such as Yale University’s multi-billion-dollar portfolio sale at prices above 90% of NAV—demonstrate the market’s growing capacity to absorb large, complex secondary transactions and signal a shift in how leading institutions manage liquidity and portfolio construction.¹³

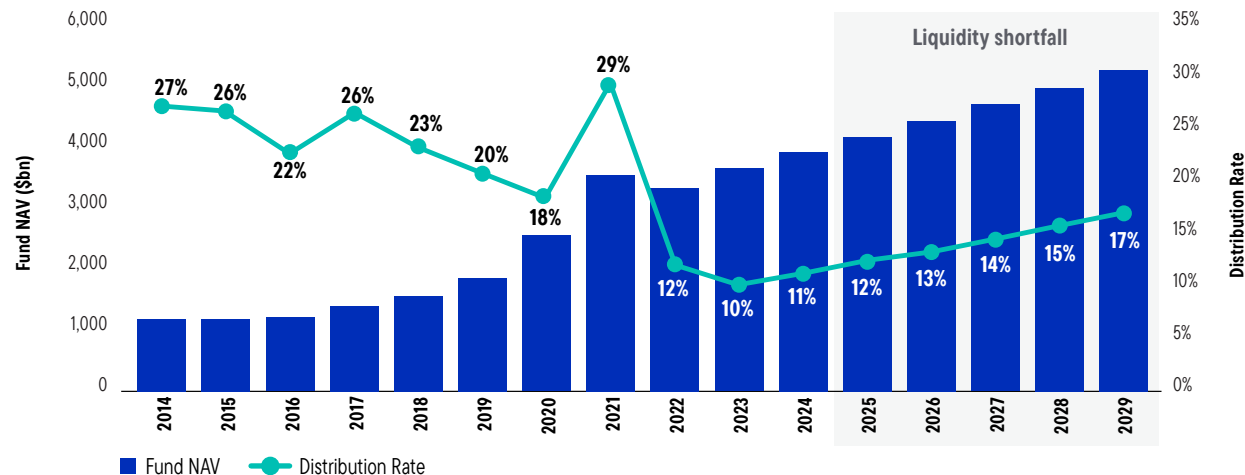
The underlying imbalance is structural. It took more than a decade to accumulate today’s stock of unrealized NAV, and even with record secondary transaction volumes, the pace of liquidity remains insufficient to meaningfully reduce the backlog. Our

analysis suggests that even if distribution rates recover to the high teens and portfolio values grow at a mid-single-digit pace, unrealized NAV is likely to continue rising through the end of the decade.

As this overhang gradually works through the system, we see a multi-year window in which secondary buyers are likely to retain negotiating leverage, enabling access to high-quality portfolios at attractive pricing. While current buy-side capital remains sufficient to absorb near-term supply, helping keep the market relatively balanced, the growing volume of aging assets suggests secondary transactions will play an increasingly important role in portfolio management. In this environment, LPs should view secondaries not merely as an opportunistic release valve, but as a strategic allocation that is likely to be integral to managing private market portfolios through 2026 and beyond.

A Multi-Year Structural Opportunity as Liquidity Shortfall Persists

Average Distribution Rate and Global Private Equity NAV (\$bn)



Investment implications

As the secondaries market scales and diversifies, it is evolving into a durable, strategic allocation within private markets. For allocators, the combination of expanding deal breadth and a growing wave of supply suggests a multi-year window to access high-quality assets with greater selectivity and negotiating leverage.

Sources: Lexington estimates, Burgiss Manager Universe. Global Private Equity for Burgiss includes Generalist, VC, Expansion Capital and Buyout. Distribution rate is calculated as annual distributions divided by prior year NAV. 2025–2029E hypothetical NAV grows at 6% CAGR. 2025–2029E includes hypothetical distribution rate growing at ~1% per year to reach 17% in 2029. There can be no assurance that historical trends will continue, or that projections and assumptions will prove to be accurate.

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Single-asset continuation vehicles

The sustained momentum in GP-led secondaries reflects a structural shift in how sponsors manage liquidity and asset ownership. GP-led transaction volume reached \$115 billion in 2025, up sharply from the prior year, underscoring the growing scale, maturity and diversity of this segment of the secondary market.¹⁴

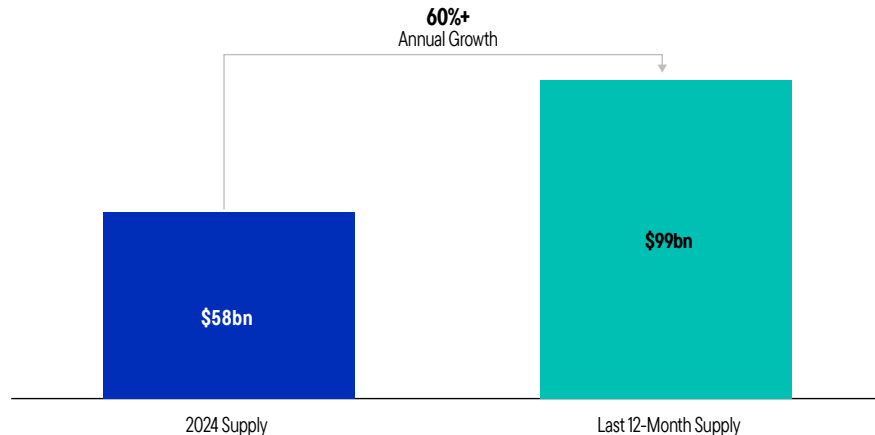
The corollary to the collapse of DPI and traditional exits is the extraordinary growth of the single-asset continuation vehicle (SACV) market. SACVs now account for roughly 50% of GP-led volume and represent the fastest-growing segment of the market.¹⁵ Since their emergence in 2018, SACV transaction volume has expanded rapidly, with 2025 becoming another record year.

While SACV supply has grown quickly, demand has struggled to keep pace. Market supply has increased by more than 60% year over year, yet dedicated lead-buyer dry powder remains limited, creating a meaningful imbalance between available assets and capital able to absorb them. This imbalance has important implications for pricing and deal dynamics.

The expansion of GP-led transactions, powered by the rise of SACVs, reflects a durable shift in private market liquidity management. As transaction volumes reach new highs and structural alignment between sponsors and investors continues to improve, SACVs are increasingly viewed as a core liquidity tool in an environment of constrained distributions. Over time, we expect LPs to incorporate SACVs more deliberately as a way to gain exposure to high-quality assets that can complement both primary private equity and traditional secondary allocations. The current imbalance between supply and dedicated capital may also create opportunities to negotiate more attractive entry terms.

SACV Supply Accelerating at a Rapid Pace

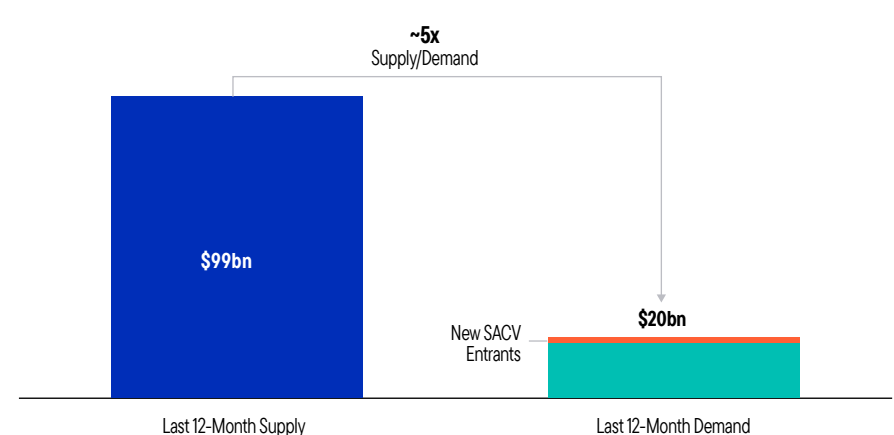
SACV Market Supply Growth



Source: Lexington Partners. Supply is measured as trailing 12 months as of October 2025.

Significant Supply-Demand Imbalance Despite New Entrant Capital

SACV Market Supply and Demand Balance



Source: Lexington Partners. Supply is measured as trailing 12 months as of October 2025. Demand is measured as lead single-asset vehicle dry powder as of October 2025.

Private credit

Private credit boom drives search to new markets

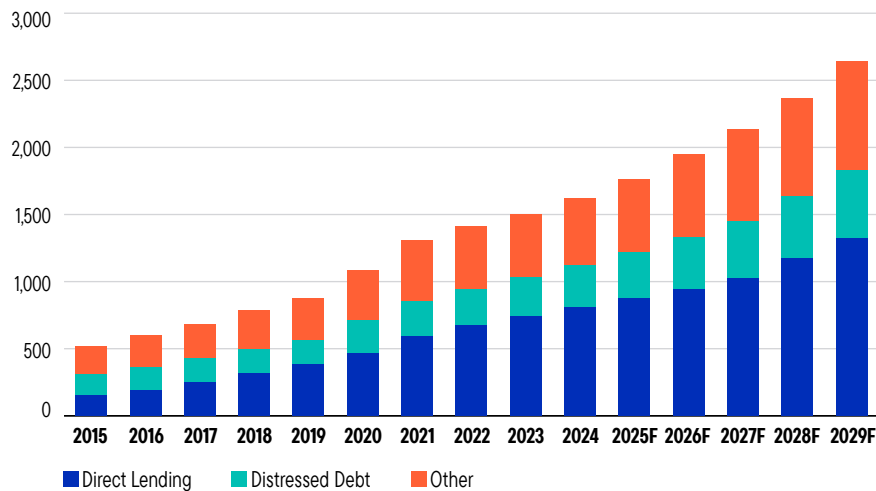
Private credit continues to expand its footprint, with non-bank lenders increasingly financing large, high-profile transactions once dominated by traditional banks. Industry estimates suggest private credit AUM could exceed \$2.6 trillion by 2029, reflecting both continued inflows and a widening opportunity set. As the market has grown, private lenders have moved well beyond their roots in middle-market corporate loans and are increasingly active across a broader range of credit strategies.

The long-term addressable market is substantially larger. McKinsey estimates that the US private credit opportunity could exceed \$30 trillion, driven primarily by asset-based finance and securitized credit. What began as a niche alternative to bank lending has evolved into a diversified ecosystem spanning consumer finance, corporate and commercial lending, real estate debt, infrastructure credit and specialty finance.

In our view, this evolution calls for a broader and more deliberate approach to private credit allocations. Many institutions have already established sizable exposures to upper-middle market, sponsor-backed direct lending, where competition has intensified and returns have become more compressed. We believe investors should increasingly look beyond these crowded segments toward areas such as the lower-middle market and asset-based lending, including real estate, infrastructure and equipment finance. These strategies can offer differentiated sources of return, but they also demand specialized underwriting, collateral expertise, and workout capabilities—particularly in more complex or stressed environments.

Private Credit to Exceed \$2.6 Trillion by 2029

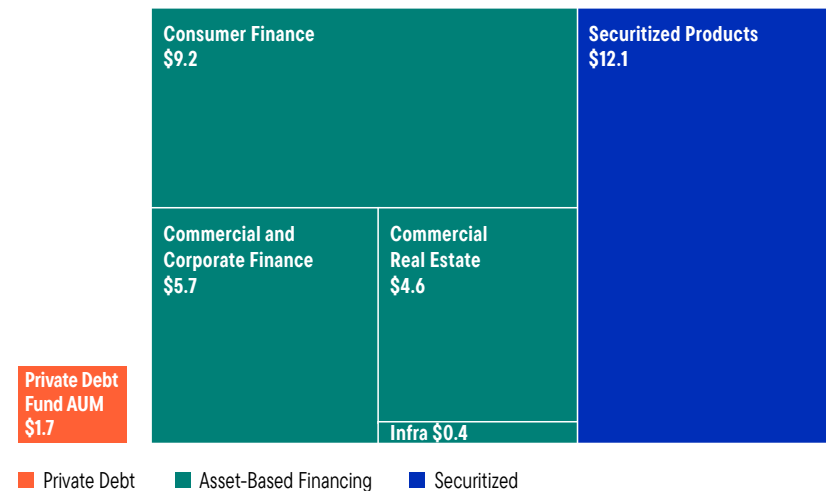
Global Private Debt AUM (\$bn) and Forecasted Growth



Source: Preqin. Future of Alternatives 2029. Estimates as of October 2025.

Asset-Based Finance Opens \$30 Trillion Market

Private Debt and Potential Pools of New Lending Assets (\$tn)



Sources: PitchBook, McKinsey & Co. SIFMA. Private credit AUM as of 2024. Asset-based financing sizes based on US lending balance on bank and non-bank balance sheets as of 2023. Securitized products size based on SIFMA estimates as of 2022.

Fierce competition erodes lender protections in larger deals

Competition in upper-middle market direct lending continues to intensify, with borrower-friendly terms becoming more prevalent. As deal sizes increase, lender protections have weakened, reflecting a shift in negotiating leverage back toward borrowers. Maintenance covenants are far less common in the largest transactions, materially reducing lenders' ability to intervene early as credit conditions deteriorate.

Data show a clear relationship between deal size and covenant strength. Maintenance covenants remain nearly universal in transactions below \$350 million but drop sharply in deals exceeding \$1 billion, where fewer than half include ongoing financial tests. Larger transactions are also more likely to incorporate payment-in-kind (PIK) features, further signaling looser underwriting standards. More than one-third of direct lending deals above \$750 million now include PIK toggles, with usage rising to 44% of deals greater than \$1 billion.

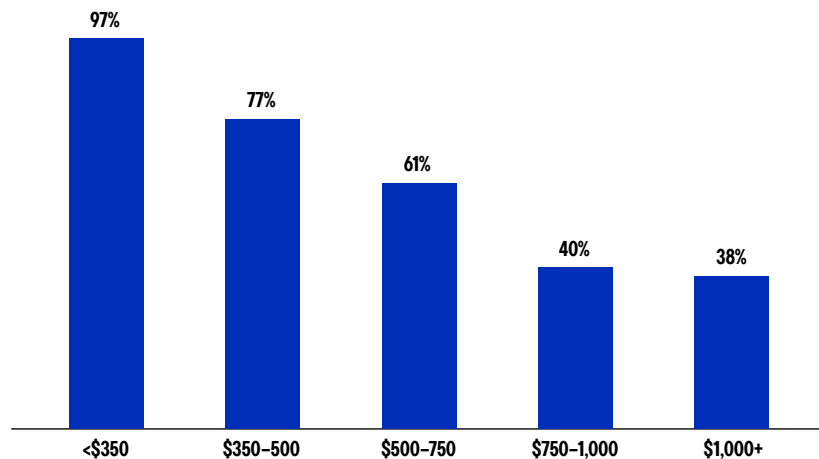
While it's important to distinguish between "good" and "bad" PIK, the widespread increase suggests more borrowers are seeing elevated interest costs as a challenge that requires greater flexibility in documentation. PIK is now appearing in some senior secured loans, not just mezzanine and subordinated debt.

According to S&P Global Ratings, private credit default rates are about 1.2%, similar to their long-term average and off the highs of 2.4% in 2020. But factoring in selective defaults, or those using PIK conversions and uncompensated term extensions, the default rate jumps to 4.6%.¹⁶ While it is lower than the 7.9% in selective defaults seen during the pandemic, we think that this trend will lead LPs to emphasize downside management capabilities and full credit cycle experience in manager selection going forward.

We believe these forces lead to a more structural evolution in upper-middle market lending rather than a temporary cyclical shift. As competition compresses spreads and weakens documentation in the largest deals, the risk-reward trade-off has become less compelling. This dynamic reinforces the case for looking beyond the crowded upper-middle market toward core and lower-middle-market opportunities, where covenant discipline, tighter structures and relationship-driven origination remain more prevalent. Furthermore, if credit stress persists, there may be greater opportunities for special situations managers to take advantage of any dislocations, restructurings or forced selling.

Covenant Protection Falls as Deal Size Increases

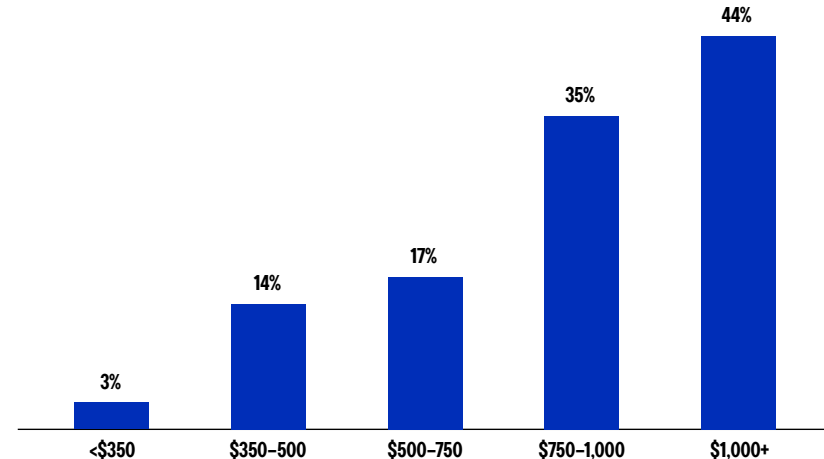
Issuers with Maintenance Covenants by Debt Size (\$mn)



Sources: S&P, Morgan Stanley Research.

PIK Toggles Becoming More Prevalent in Large Debt Deals

Issuers with PIK Toggle Included in Agreement by Debt Size (\$mn)



Sources: S&P, Morgan Stanley Research.

“Sweet spot” emerges in core middle market and select non-sponsor deals

Within private credit, we see compelling opportunity in the core middle market, where borrower fundamentals often offer an attractive balance between resilience and return potential. Compared with smaller companies, core middle-market businesses tend to exhibit more stable EBITDA through downturns, supported by longer operating histories, experienced management teams, and more diversified customer and contract bases. These characteristics can help mitigate downside volatility, while equity support from ownership groups is typically more substantial.

At the other end of the spectrum, larger borrowers benefit from scale and operational maturity but increasingly come with weaker documentation and more deal competition. As deal sizes grow, lender protections have eroded and competition from banks and large private lenders has compressed returns, reducing the appeal of the upper end of the market on a risk-adjusted basis.

Risk-Return Dynamics Favor Core Middle Market

Middle Market Lending Characteristics by Firm Size

←		→
Lower-middle market <\$25mn EBITDA	Core middle market \$25–\$100mn EBITDA	Upper-middle market >\$100mn EBITDA
<ul style="list-style-type: none"> • More volatile EBITDA in a downturn • Less operating history • Strong documentation 	<ul style="list-style-type: none"> • Attractive risk/return profile at top of the capital structure • Proven business model with more stable EBITDA • Longer operating history • Moderate documentation 	<ul style="list-style-type: none"> • Stable businesses with established management teams • Longer operating history • Weak documentation • Competition with banks

Based on the views of Benefit Street Partners. Subject to change.

We also see differing dynamics when comparing sponsor-backed and non-sponsor transactions. Sponsor-backed middle-market deals often involve larger debt stacks, more participants, and tighter spreads, with covenant packages that have become more limited as competition has intensified. By contrast, selective non-sponsor deals are typically smaller, less intermediated, and more relationship-driven. While deal flow is lower and underwriting more hands-on, these transactions often feature stronger covenant protection, higher yields, and additional sources of upside, including call protection, higher floors or original issue discounts.

In our view, the combination of resilient borrower fundamentals, stronger lender protections and enhanced structuring flexibility makes the core middle market—particularly selective non-sponsor opportunities—a differentiated area within today’s private credit landscape.

Non-Sponsor Deals Offer Greater Protection, Upside

Sponsor-Backed vs. Non-Sponsor Loan Comparison

	Sponsor-Backed Loans	Non-Sponsor Loans
Typical size of debt stack	\$200–\$500mn	\$50–\$300mn
Typical number of primary participants	3–5	1–3
Target yield premium vs. broadly syndicated loans	+150–250 bps	+250–350 bps
Potential upside features	Limited	Call protection Higher call premiums Higher SOFR floors Higher original issue discount
Covenants	Typically limited/moderate	Typically multiple
Scope of due diligence	Moderate (1 month)	High (3 months)

Based on the views of Benefit Street Partners. Subject to change.

Diversifying private credit through global markets

Many institutions have already built out their core private debt allocations with upper-middle-market, sponsor-backed direct lending investments—an area that has become fiercely competitive and favors borrowers. We think there is an opportunity to expand private credit portfolios to stressed and distressed credit in Europe due to a significantly expanded opportunity set and structural features that favor lenders.

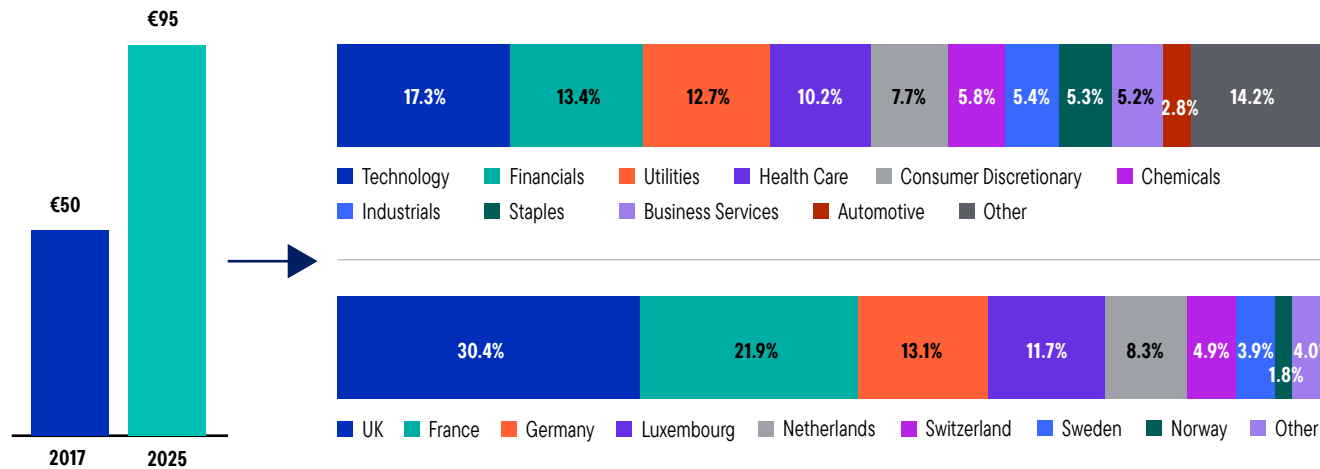
The European market for stressed credit has grown to around €100 billion, based on the share of leveraged loans and high yield bonds trading above 12% yield. This is approximately double the long-term average and excludes the substantial bilateral bank loan and direct lending market. Unlike prior cycles that were concentrated in a narrow set of industries, current opportunities span a wider range of sectors, including traditionally defensive areas such as telecommunications, utilities and health care. Secondary trading activity has also increased, alongside a growing pipeline of rescue financing opportunities from both bank-led and private credit situations.

Structural features of European lending markets further contribute to pricing dislocations. Most European leveraged loans are subject to investor “whitelists,” which restrict eligible buyers and often exclude distressed-focused investors. During periods of underperformance, these constraints can limit exit options for primary holders, reducing competition in secondary markets and pressuring prices below levels implied by fundamentals.

We believe these dynamics can create entry points for investors with the expertise to navigate European credit markets. For allocators seeking to diversify private credit exposures, global strategies—particularly in Europe—offer access to less crowded opportunity sets and differentiated return drivers.

Stressed Credit Market Has Doubled in Size and Is Now Diversified Across Cyclical and Defensive Sectors

European Distressed Debt Market Breakdown



Source: Bloomberg, as of 10/22/2025. The universe is defined as capital structures with high yield bonds or loans in excess of €100 million nominal value, trading at or above a 12% yield to maturity.

Investment implications

As private credit matures, returns are likely to be driven less by broad exposure to mainstream direct lending and more by selectivity across strategy, structure, and geography. With signs of credit stress emerging and fewer lender protections in large direct lending deals, expanding into less crowded segments—such as core middle-market lending, asset-based financing and certain global opportunities—may improve diversification and risk-adjusted outcomes.

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Multifamily lending

Within asset-based finance, we view real estate debt—and multifamily lending in particular—as offering attractive return and diversification potential in a less competitive environment than direct lending. Small and regional banks have historically been the primary providers of real estate credit but have meaningfully reduced lending activity amid regulatory pressure and credit concerns. This retrenchment has created a financing gap that private lenders are increasingly well positioned to fill. Looking at the loan maturity wall, about \$3.4 trillion of real estate debt needs to be refinanced in the next few years.

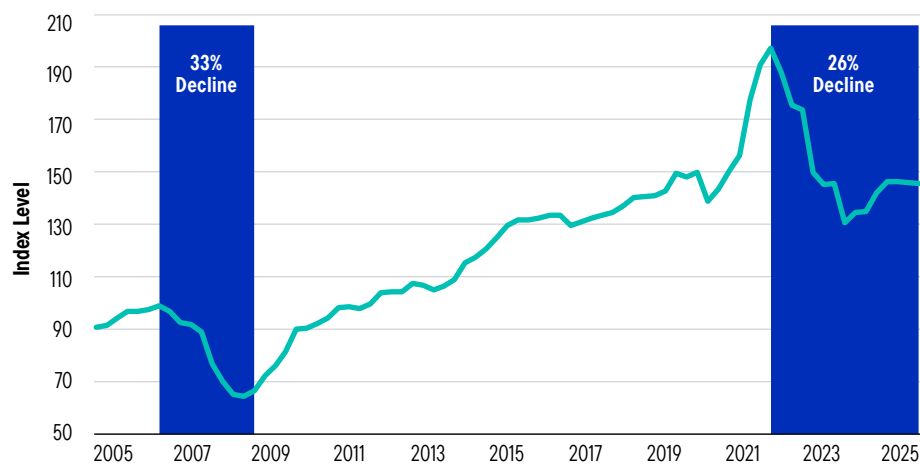
Valuations in fundamentally sound property sectors have reset. Multifamily asset values have declined by approximately 30% since 2021, creating a more attractive entry point for lenders and a meaningful cushion against potential loan losses. At current levels, valuations would need to fall by more than 50% from prior peaks before equity would be fully eroded, providing structural downside protection.

Beyond valuation support, multifamily benefits from durable long-term fundamentals that differentiate it from traditional direct lending. Housing is a non-discretionary need, supported by a persistent supply-demand imbalance driven by limited new construction and rising rental demand. The sector also benefits from deep liquidity and refinancing flexibility, including access to agency lenders such as Fannie Mae and Freddie Mac. Rent payments typically take priority for households, and borrower demand remains robust across a spectrum of financing options.

Taken together, we think these dynamics position multifamily lending as a compelling component of a diversified private credit allocation.

A Meaningful Reset in Multifamily Valuations

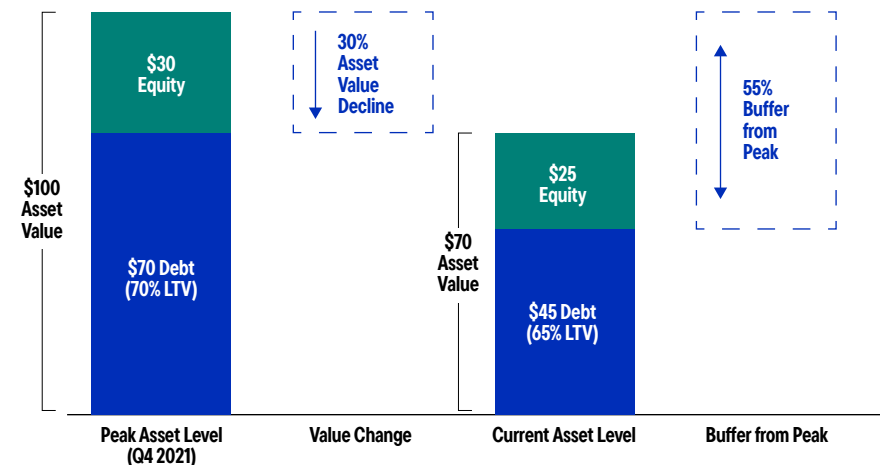
Green Street Apartment CRE Index (Top 50 US Markets Average)



Source: Green Street. Data as of 9/30/2025.

Current Valuations Provide Significant Equity Buffer for Lenders

Multifamily Loan Underwriting Example



Source: Benefit Street Partners. For illustrative purposes only.

Real estate

A new, more nuanced cycle emerges

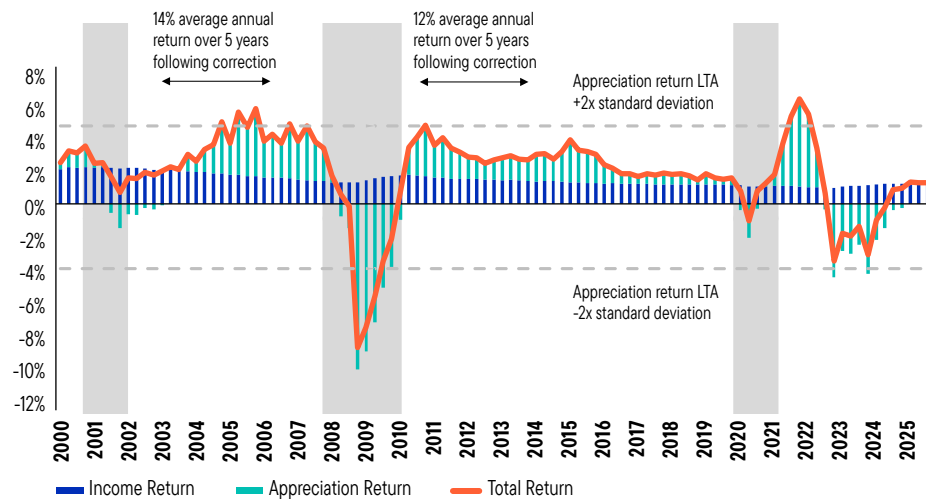
After a cumulative decline of nearly 20% from peak to trough between 2021 and 2023, CRE property values have stabilized. Total returns have been positive for six consecutive quarters through 4Q 2025, marking an important inflection point after several difficult years. Notably, the early stages of this recovery have been driven almost entirely by income rather than price appreciation—a sharp contrast to pre-pandemic periods.

Unlike previous recoveries that were broadly synchronized across property types and markets, this cycle is likely to be one of more meaningful divergence. Large portions of the office sector and segments of discretionary retail continue to face

structurally weaker demand, elevated vacancy and rising obsolescence risk. In contrast, several sectors are benefiting from durable secular tailwinds. Housing (broadly), logistics, essential retail and health care real estate are supported by demographic shifts, a persistent housing shortage with affordability challenges, ongoing innovation and an increasingly geographically dispersed knowledge economy. Investor behavior is shifting, with capital increasingly targeting sectors that demonstrate long-term thematic growth—many of which can be categorized as alternative CRE sectors.

CRE Values Stabilize, Signaling a New Cycle

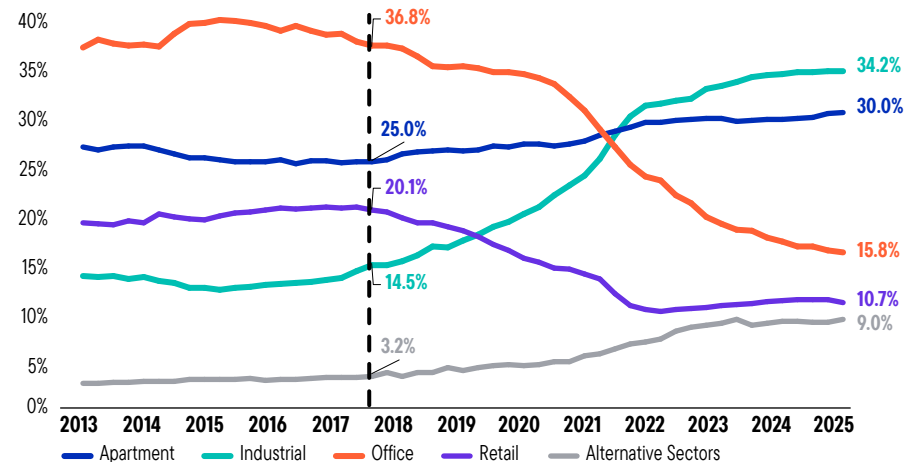
NCREIF Property Index Total Return by Quarter



Sources: Moody's Analytics, NCREIF, Clarion Partners Global Research. Data as of 12/31/2025.

Alternative CRE Sectors Becoming Integral Part of Opportunity Set

NCREIF Property Index Sector Allocation



Sources: NCREIF, Clarion Partners Global Research. Data as of 9/30/2025.

Expect highly differentiated performance by property type

Despite a somewhat uncertain macroeconomic environment over the past couple of years, occupier demand has remained resilient across much of CRE, increasingly supported by a sharp pullback in new supply. Following a surge in development activity between 2021 and 2023, developers have significantly curtailed pipelines, while demand has held up across most property types. The result is generally healthy occupancy levels, with weakness concentrated in a limited number of lagging sectors.

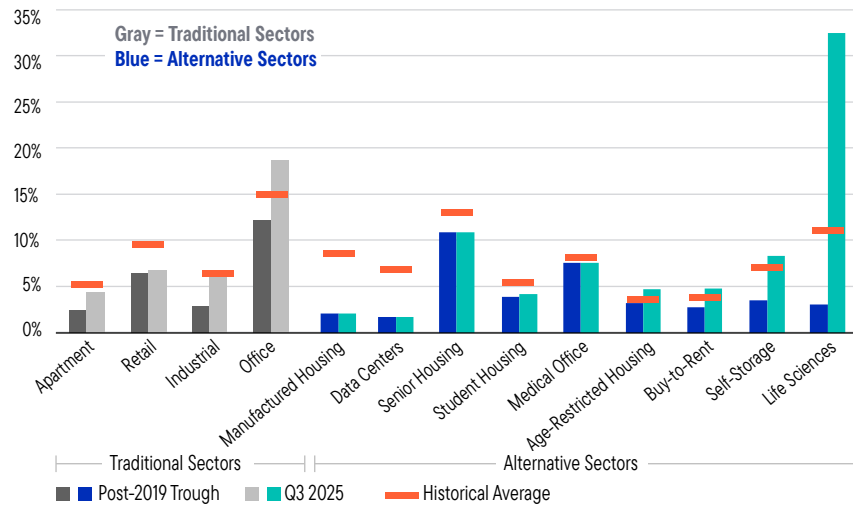
The combination of resilient demand and constrained supply is creating a constructive foundation for sustained net operating income growth. Importantly, the outlook is strongest for sectors driven by structural demand shifts and less exposed to cyclical fluctuations in the broader economy. These dynamics are reinforcing the growing performance divide across property types.

Performance dispersion has been pronounced for several years. Since 2017, industrial and multifamily assets have significantly outperformed office and traditional retail. More recently, alternative CRE sectors have generally outpaced traditional sectors, underscoring their rising strategic importance within institutional portfolios. Over the past year, manufactured housing, data centers, senior housing, self storage and student housing have delivered the strongest returns, while office assets have continued to generate negative performance.

In our view, this divergence reflects investor preference for sectors and geographies benefiting from durable structural tailwinds—such as demographic trends, technological innovation and persistent housing shortages—which are likely to remain central drivers as the next phase of the CRE cycle unfolds.

Occupancy Levels Strong in Alternative CRE Sectors

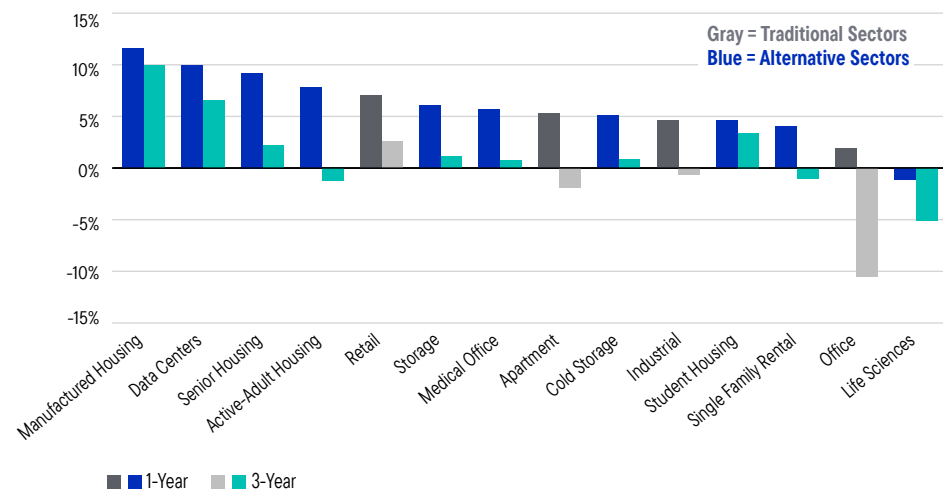
Vacancy Rate by Property Sector



Sources: CBRE-EA, Yardi Matrix, RealPage, NIC MAP, JLL, RevistaMed, CBRE, various REIT financial supplements, Clarion Partners Global Research. Data as of 9/30/2025.

Alternative CRE Sectors Have Been Standout Performers

Expanded NPI Historical Annualized Total Returns by Sector



Sources: NCREIF, Clarion Partners Global Research. Data as of 9/30/2025.

Alternative sectors poised to lead new cycle

The recent repricing of CRE has created a compelling entry point for property sectors with healthy fundamentals. During the Federal Reserve's rate-hiking cycle, higher borrowing costs and interest-rate uncertainty drove a sharp valuation reset, with private CRE values declining roughly 19% from 2022 peaks. After seven consecutive negative quarters, total returns turned positive in the second half of 2024, suggesting valuations may be approaching an inflection point.¹⁷ Public REIT valuations, historically a leading indicator for private markets, have also trended higher in recent quarters.¹⁸

Elevated interest rates and construction costs have pushed replacement costs higher while suppressing new development, creating opportunities to acquire assets below replacement value. In some cases, capital stack stress is adding to this opportunity set, with more than \$2 trillion in US CRE debt maturing through 2026 and distress levels at their highest point in more than a decade.

Against this backdrop, most alternative sectors are particularly well positioned. Demand for alternative sector assets is expected to increase based on permanent shifts in optimal allocation models. Considering the higher scaling costs—in part due to the smaller deal sizes for select alternative property types and highly fragmented ownership—an aggregation premium will likely persist for alternative property sectors, as allocations among institutional investors to these sectors continues to rise.

Among alternative sectors, senior housing and industrial outdoor storage stand out for their combination of strong projected growth and attractive entry points. Several other alternative sectors also exhibit favorable fundamentals, but with more mixed near-term entry conditions. In contrast, data centers, despite compelling long-term demand drivers, currently appear less attractive on an entry-point basis.

Investment implications

Commercial real estate is entering a different kind of cycle than before, where outcomes are likely to diverge meaningfully by property type and geography. Certain alternative sectors—supported by structural demand and more attractive entry conditions—appear positioned to drive performance as the cycle evolves. For allocators, success will depend less on broad market exposure and more on a targeted approach to property selection that is supported by enduring long-term themes.

Select Alternatives Offer Strong Fundamentals and Favorable Entry Points Outlook by Sector

Sector	Fundamentals	Growth Potential	Entry Point
Senior Housing	Aging boomers, limited new construction		
Industrial Outdoor Storage	E-commerce, on-shoring, population shifts		
Build-to-Rent Communities	Housing shortage		
Student Housing	Gen Z population growth		
Age-Restricted Communities	Growing boomer cohort		
Manufactured Housing	Aging boomers and millennials, lack of affordable housing options		
Outpatient Medical	Aging population, changing in-patient dynamics		
Self Storage	Undermanaged assets		
Life Sciences	Rapidly changing medical advances, oversupply issues		
Cold Storage	E-commerce, on-shoring, population shifts		
Data Centers	Emerging technologies		

Based on the views of Clarion Partners as of December 2025. Subject to change.

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Senior housing

The American senior housing sector stands at an inflection point, driven by powerful demographic forces that distinguish today's opportunity from past market cycles. With baby boomers entering their eighties, demand for age-appropriate living arrangements is accelerating at unprecedented rates.

The 80-plus population is projected to expand 2.5 times faster over the next decade compared to the previous ten years, creating a substantial supply-demand imbalance. This surge comes as construction activity has significantly slowed following earlier periods of overbuilding, when developers mistakenly anticipated demand from residents in their mid-seventies rather than early eighties.

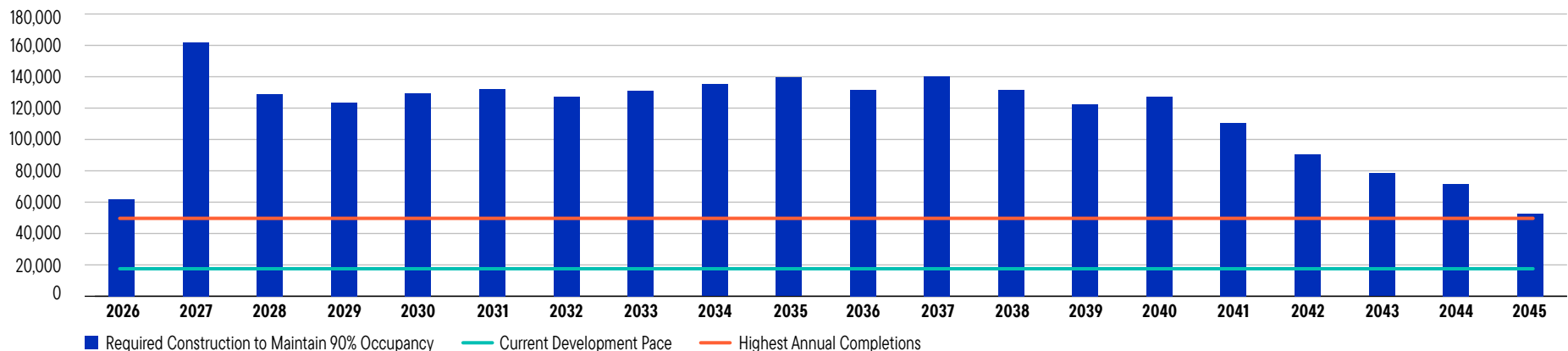
Financial accessibility has improved dramatically. More than half of baby boomer households now possess net worth exceeding \$250,000, bolstered by decades of home price appreciation and stock market gains. Current median senior wealth can fund a six-year residence in senior housing communities—nearly triple the typical stay duration—without additional support from adult children.

The sector encompasses three primary care levels: independent living, assisted living, and memory care. While independent living demand remains somewhat discretionary, assisted living and memory care respond to immediate health-related needs, creating more resilient revenue streams. Technology integration promises to address traditional labor challenges through remote monitoring systems, fall detection devices and telemedicine capabilities. These innovations can reduce operational costs while maintaining quality care standards.

While the COVID-19 pandemic created an unprecedented headwind and drove recent underperformance, the sector's needs-driven demand base—most notably in higher-acuity segments—has historically delivered both outperformance and reduced volatility. We expect this sector to outperform as demand is forecast to remain very strong, new supply is significantly muted and profit margins are improving—driven by rising rental rates exceeding expense growth.

Senior Housing Supply Falls Well Short of Future Demand

Senior Housing Units Needed to Maintain 90% Occupancy of 80+ Population



Sources: NICMAP, Moody's Analytics, Clarion Partners Global Research.

Franklin Templeton Private Markets

Franklin Templeton offers institutional investors access to a \$250+ billion private markets investment platform backed by specialist investment managers with deep expertise in their respective domain.

Franklin Venture Partners

Based in the heart of Silicon Valley, Franklin Venture Partners is the private investing platform of Franklin Templeton's equity group. The team leverages the firm's resources and capabilities to pursue opportunities where its expertise and network adds value to drive growth and profitability for early- to mid-stage private companies.



Secondaries investment pioneer Lexington Partners is one of the world's largest managers of secondary acquisition and co-investment funds. Over the past 30 years, the firm has raised commitments from more than 1,000 institutional investors, deploying capital across more than 5,000 secondary, co-investment and primary interests globally.



BSP is a leading alternative credit manager dedicated exclusively to unlocking opportunity in this fast-evolving market. Founded as an early pioneer in the space, they have guided investors through multiple market cycles with discipline, creativity and resilience. Their expertise spans direct lending, real estate debt, liquid credit, structured credit and other alternative credit strategies.



Clarion Partners is one of the largest pure-play real estate investment managers offering a broad range of private real estate strategies across the risk-return spectrum. For over 40 years the firm has used its broad scale, execution capabilities and deep market and property expertise to build strategies that leverage the true drivers of long-term value in real estate.

Key terms

- **AUM:** assets under management (AUM) represents the total market value of investments managed by a financial institution or individual on behalf of their clients. It helps assess the scale and scope of a manager's operations and investment capabilities.
- **BDC:** a business development company (BDC) is a type of investment company that provides financing to small and mid-sized private companies. They act as lenders and investors, offering capital that these companies might not be able to easily obtain from traditional sources like banks. BDCs are structured as closed-end funds and often distribute a significant portion of their income to shareholders as dividends.
- **BSL:** broadly syndicated loans (BSL) are loans provided to large corporations by a group of lenders. BSLs offer attractive yields and diversification opportunities in fixed income portfolios.
- **Continuation vehicle:** a continuation vehicle (CV) is a secondary structure where general partners transfer assets from a maturing fund into a new vehicle, enabling the retention and reinvestment in high-quality assets. Continuation vehicles can provide liquidity options and potentially enhance returns by allowing GPs to manage assets beyond the initial fund term.
- **Carry:** carried interest (carry) refers to the share of profits that a private equity fund manager or general partner is entitled to receive upon the sale of investments and achievement of predefined return thresholds. Carried interest directly impacts the alignment of interests between GPs and limited partners.
- **Dividend recapitalization:** a corporate finance strategy where a company takes on new debt to pay a large, one-time special dividend to its shareholders. This allows investors to extract cash and recoup their investment without selling the company.
- **Denominator effect:** the denominator effect occurs when a significant decline in the value of one portfolio component leads to a reduction in the overall portfolio value, causing other assets to represent a larger proportion of the total. The denominator effect as it can affect asset allocation and investment strategies, particularly those with specific target allocations.
- **DPI:** distributions to paid-in capital (DPI) is a metric that evaluates the return on investment by measuring distributions made to investors relative to their paid-in capital. DPI helps assess the actual cash returned by a fund relative to the initial investment.
- **Drawdown fund:** a drawdown fund is a fund where capital is called from investors over time as investments are made, rather than being invested all at once. This structure allows for more effective management of cash flows and commitments.
- **EBITDA:** EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization. It is a financial metric used to measure a company's core operational profitability and cash flow potential by excluding non-operating expenses (interest, taxes) and non-cash accounting items (depreciation, amortization). It is widely used to compare performance across companies with different capital structures.
- **ELTIF:** a European long-term investment fund (ELTIF) is a type of investment fund that allows for long-term investments in various asset classes. ELTIFs benefit from certain regulatory advantages.
- **Evergreen fund:** an evergreen fund is a type of private equity fund that continuously invests in new opportunities without a fixed term. Evergreen funds provide continuous exposure to private investments and offer more flexibility in terms of investment horizon.
- **GP:** a general partner (GP) is an entity responsible for managing a private fund, making investment decisions and overseeing operations. Understanding the role and responsibilities of the GP helps evaluate the management team's capabilities and potential for generating returns.
- **Interval fund:** an interval fund is a type of closed-end fund that allows investors to buy or sell shares at periodic intervals. Interval funds provide some liquidity in otherwise illiquid investments.
- **IRR:** internal rate of return (IRR) is a performance metric that calculates the rate of return based on initial investment and subsequent cash flows. It provides a standardized measure to compare the performance of different investments and funds.

Key terms (continuation)

- **J-curve:** the J-curve describes the trajectory of a private asset fund's cash flows and returns over time, characterized by initial negative returns followed by positive returns as investments mature. Understanding the J-curve assists in effectively managing liquidity and meeting capital calls during the early stages of the investment.
- **LP:** a limited partner (LP) is an entity that invests capital in a private fund but does not participate in its day-to-day management.
- **M&A:** mergers and acquisitions (M&A), refers to the consolidation of companies or assets through various financial transactions, where companies either join forces to form a new entity (merger) or one company buys and absorbs another (acquisition) to achieve strategic growth, increased market share or new capabilities.
- **MOIC:** multiple on invested capital (MOIC) measures the return on investment by comparing the total value of the investment to its initial cost. MOIC provides a clear measure of the total return generated by an investment, helping to evaluate fund performance.
- **NAV:** net asset value (NAV) represents the total value of a fund's assets minus its liabilities. NAV is a key indicator of a fund's net worth.
- **NAV loan:** a type of financing where a private fund borrows money using its portfolio of underlying assets as collateral. These loans provide liquidity for follow-on investments, expenses or to return capital to investors, acting as a flexible tool when capital is tied up in investments.
- **Payment-in-kind (PIK) toggle:** a loan feature that allows the borrower to choose between paying interest in cash or by issuing additional debt, effectively deferring cash interest payments to preserve liquidity.
- **REIT:** a real estate investment trust (REIT) is a company that owns or finances real estate properties, providing a way for individuals and institutions to invest in real estate without direct management.
- **Secondaries:** secondary investments (secondaries) involve the transfer of a private asset interest from one investor to another, enabling investors to liquidate holdings or adjust portfolios. They provide liquidity options and flexibility in managing private equity portfolios.
- **Single-asset continuation vehicle:** a single-asset continuation vehicle (SACV) is a type of continuation fund that focuses on a single asset, allowing general partners to continue managing the asset while providing liquidity options to limited partners.
- **Tender offer fund:** a tender offer fund is a type of investment fund that periodically offers to buy back shares from investors at a price based on the fund's NAV. Tender offer funds provide a mechanism for liquidity.
- **TVPI:** total value to paid-in capital (TVPI) measures the total return on investment relative to paid-in capital, including both realized and unrealized gains. TVPI provides a comprehensive view of a fund's performance and helps in evaluating the overall return on investment.
- **Unicorn:** a privately held startup company valued at over \$1 billion.

1. Source: Convergence. December 2025 Capital Flows Report. Data as of 12/31/2025.
2. Source: PitchBook. Q4 2025 US Evergreen Fund Landscape Report. Data as of 11/30/2025.
3. Source: PitchBook. 2025 Annual US PE Breakdown Report. Data as of 12/31/2025.
4. Source: PitchBook. 2025 Annual US PE Breakdown Report. Data as of 12/31/2025.
5. Source: PitchBook. 2025 Annual US PE Breakdown Report. Data as of 12/31/2025.
6. Source: PitchBook. 2025 Annual US PE Breakdown Report. Data as of 12/31/2025.
7. Source: PitchBook. Q4 2025 NVCA Venture Monitor Report. Data as of 12/31/2025.
8. Source: PitchBook. Q4 2025 NVCA Venture Monitor Report. Data as of 12/31/2025.
9. Source: Pitchbook. Q4 2025 Analyst Note: AI Megadeals and the Making of a Concentrated Venture Market. Data as of 9/30/2025.
10. Source: PitchBook. Q4 2025 Defense Tech VC First Look. Data as of 12/31/2025.
11. Source: NATO. Defense Expenditures of NATO Countries (2014–2025). Data as of August 2025.
12. Source: PitchBook. 2029 Private Market Horizons Report. PitchBook estimates made on 4/14/2025.
13. Source: Bloomberg. "Yale Nears Deal to Sell \$2.5 Billion of Private Equity Stakes." June 2025.
14. Source: Jefferies. 2026 Global Secondary Market Review. Data as of January 2026.
15. Source: Jefferies. 2026 Global Secondary Market Review. Data as of January 2026.
16. Source: S&P Global Ratings. Data as of 6/30/2025.
17. Sources: NCREIF, Clarion Partners Global Research. Data as of 9/30/2025.
18. Sources: NCREIF, NAREIT, Clarion Partners Global Research. Data as of 9/30/2025.

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