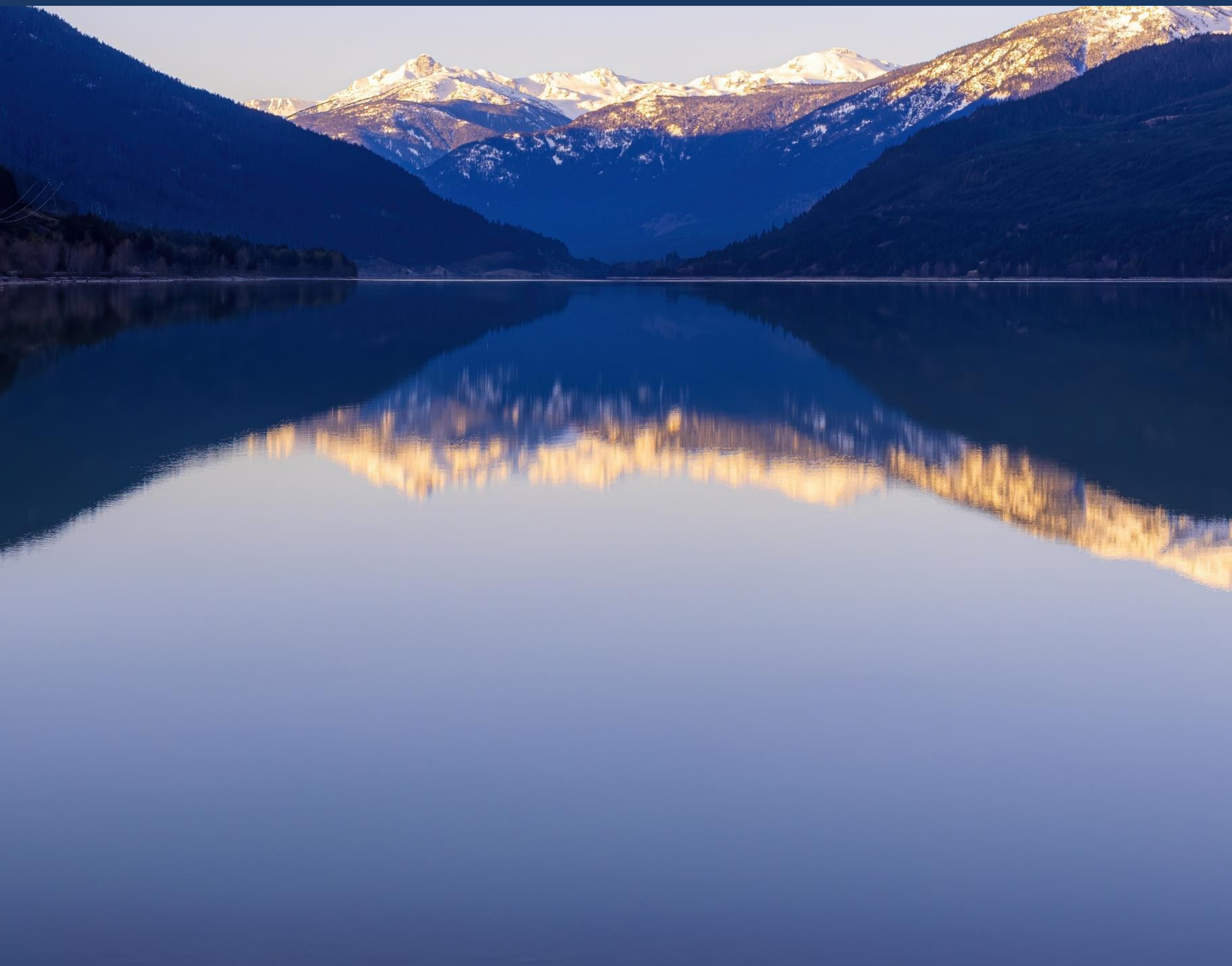
THE ALTERNATIVE INVESTMENTS PLATFORM

# From the desk of the CIO: Private Markets Outlook 2024



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An Obsiido Whitepaper

# Summary

Obsiido Alternative Growth Portfolio & Obsiido Alternative Income Portfolio are multi-asset investment portfolios focused on alternative investments. Within this whitepaper, we provide an overview of each private market asset class invested in by the Obsiido Portfolios, how they fared in 2023 and the outlook going forward. While economic and geopolitical uncertainty persists, impacting all investments and asset classes, seasoned, high-quality managers that have managed investments through many different cycles see attractive opportunities to put capital to work in this environment.

# Content

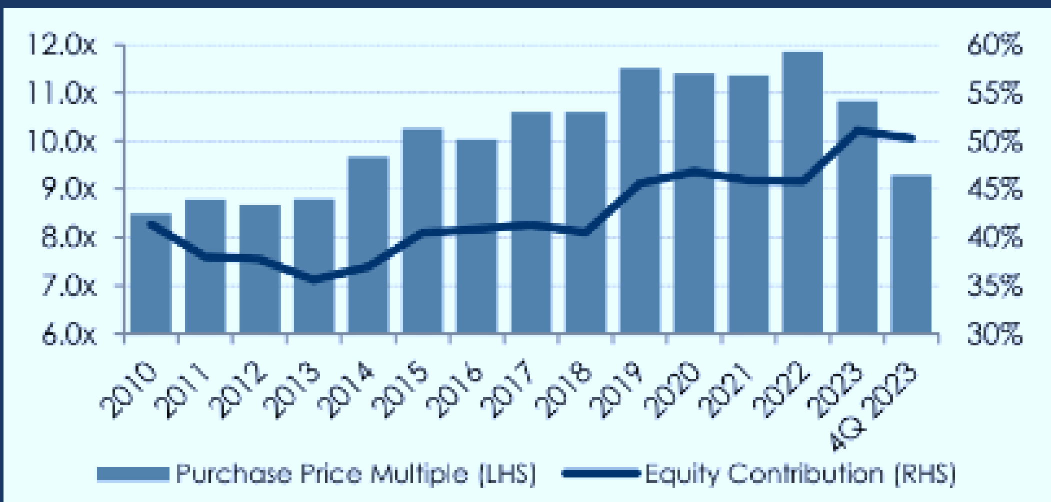
# Section 1 : Private Equity

2023 looks like a full reset in private equity markets. Transaction activity in the US matched the lowest level seen in the past decade. Prices for new buyout deals dropped steadily throughout the year with the Q4 average purchase price of 9.29x EBITDA, a full two turns below the 2022 average[1]. For deals that did get completed in 2023, buyers were forced to make up the funding gap by contributing additional equity. The average equity required for a new deal now stands at over 50%, up from 36% a decade ago[1].

It was a dreadful year for private equity realizations and distributions. The US IPO market produced paltry proceeds of $19.4 billion, less than half the average of the past ten calendar years[1]. A late year rally in public equity markets may lead to improving mark-to-market performance for private fund investors.

The private equity secondary market continues to look increasingly attractive. As more institutional investors seek liquidity in their private markets' portfolios, there will be opportunities for skillful secondary managers to acquire high quality assets at a discount. In secondary markets, non-traditional deal structures took the lead with GP-Led transactions, NAV loans and preferred equity structures all gaining secondary market share.

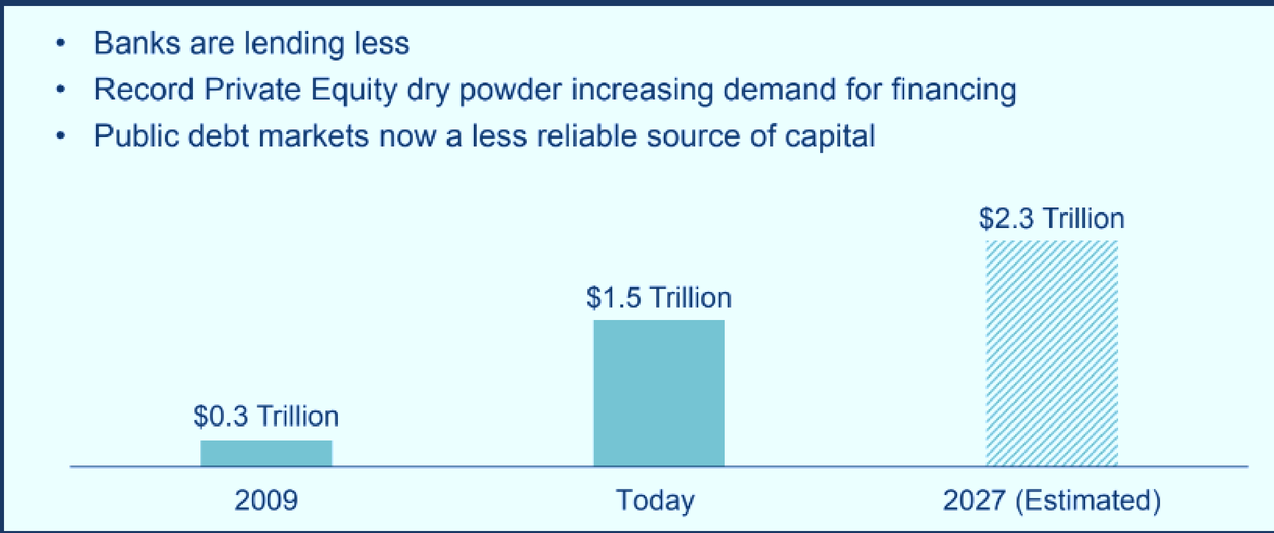
**Exhibit 1 – LBO Purchase Price Multiple and Equity Contribution %[2]**




[1]Obsiido Alternative Investments Inc, Asset Consulting Group Research
[2]Chart sources: Asset Consulting Group Research, Pitchbook LCD, CoStar

# Section 2 : Private Credit

### Exhibit 2 – Opportunity in Private Credit Lending Growing Rapidly[1]




Private credit continues to be attractive as lenders take advantage of higher base rates, lower leverage with robust lender protections. Private lenders continue to gain market share, including in large-cap financings, an opportunity that has exploded as sponsors and corporations of increasing size seek tailored solutions and execution certainty that are increasingly difficult to come by in the strained, traditional lending markets. Large corporate originations can act as a complementary component of a credit portfolio as lending to large corporate borrowers offers a level of stability as we move into an increasingly volatile and uncertain environment.

These positives notwithstanding, the current higher rate environment raises the risk of default for highly leveraged companies. Many companies took on additional debt during the last decade of near-zero rates, and only recently are beginning to feel the impact on levered free cash flow. This could also lead to more borrowers seeking rescue capital financing which will present attractive opportunities for those skilled managers with restructuring expertise.

[1]Chart Sources: Oaktree, 'Sea Change May Create Historic Private Credit Opportunity', Preqin, 'The Future of Alternatives in 2027'

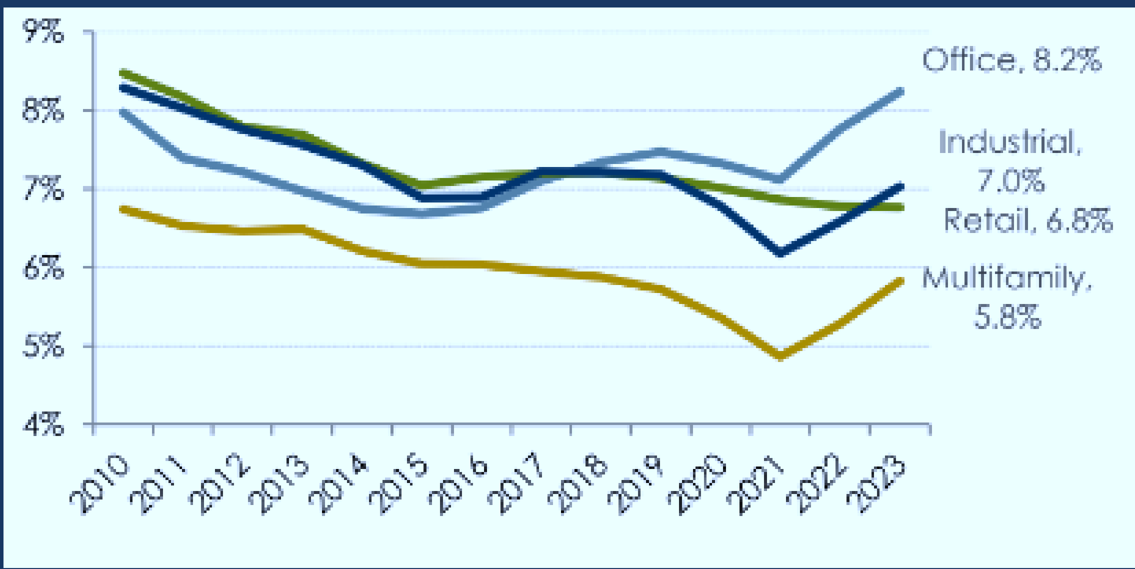
# Section 3 : Real Assets

## Real Estate

Throughout 2023, real estate values continued to reprice lower on the back of higher cap rates. Cap rates across primary property types in the US bottomed in mid-2021 and have been rising steadily. At 8.2%, office cap rates are now materially higher than other property types and are at their highest point since 2009[1]. However, sectors that are experiencing strong cash flow growth and attractive supply/demand fundamentals continue to remain attractive. These would include multi-family residential industrials, student housing and data centers.

For experienced real estate investors with access to capital, the time may be coming to shift from defense back to offense. There is likely to be a wave of "motivated sellers" who acquired high-quality real estate but paid too much or borrowed with an assumption that rates would stay near zero. As this debt begins to mature, many real estate owners will be faced with a decision to either invest more equity to pay down that debt or sell the assets into the market at the now-prevailing prices.

### Exhibit 3 – Cap Rates by Property Type[2]



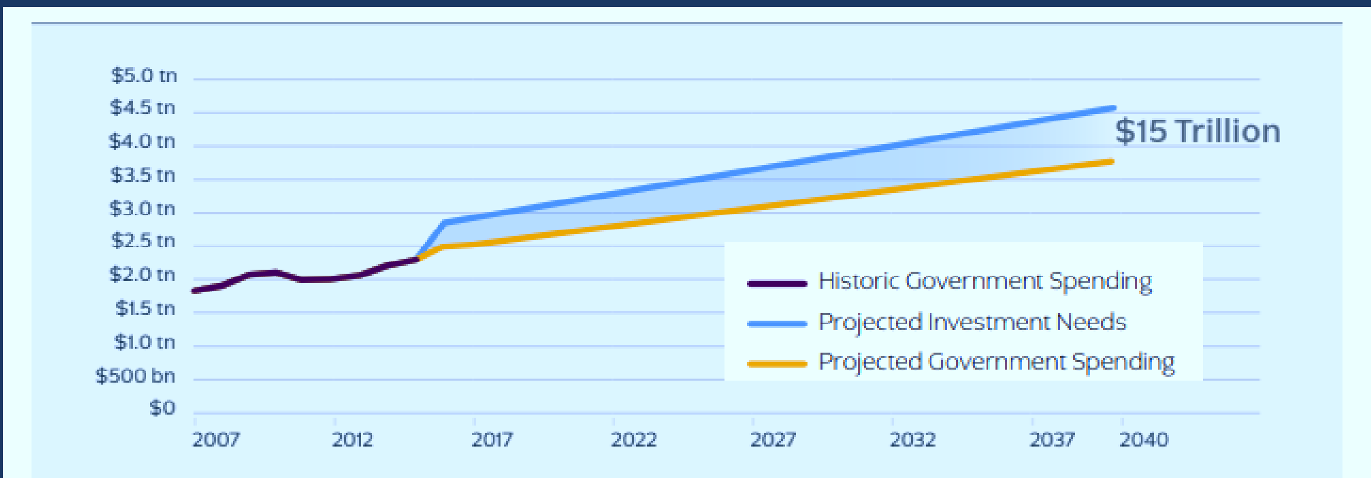

[1]Obsiido Alternative Investments Inc, Asset Consulting Group Research
[2]Chart sources: Asset Consulting Group Research, Pitchbook LCD, CoStar

## Infrastructure

The market for infrastructure investing in 2023 was characterized by a lack of capital and a mismatch between buyers and sellers on valuations, a common theme across private market asset classes. However, there are early signs that the capital markets are beginning to thaw and that valuations are starting to settle in the middle. Investing in assets or services critical to the functioning of the economy can serve as a calm harbor in times of economic uncertainty. In 2022, for example, private infrastructure generated a return of 15.9%, making it one of few asset classes to increase in value in that year.[1] Additionally, infrastructure investments have the potential to protect against inflation as inflation linkage can be contractual whereby revenues are contractually linked to inflation.

As the gap between buyers and sellers of assets continues to close, sellers will become more motivated to transact, creating the opportunity for buyers to acquire high quality assets at attractive prices. In this environment, some managers are prioritizing investments that offer value creation opportunities as the most effective tool in combating the effects of higher inflation and interest rates. Infrastructure themes around decarbonization, digitalization, and deconsolidation are creating attractive large scale investment opportunities for managers. Governments around the world are increasingly aware of the need to provide infrastructure, particularly to achieve the energy transition, and to enhance security of supply of critical infrastructure.

### Exhibit 4 - A Growing Gap Between Government Infrastructure Spending and Society's Needs[2]




[1]Preqin Global Report on Infrastructure 2024

[2]Chart sources: KKR Market Review Infrastructure Q3 2023, "Looking to 2024", G20 Globe Infrastructure Outlook as of March 2018. "Infrastructure investment" is defined here as gross fixed capital formation by the public and private sectors on fixed, immovable assets that support long-term economic growth, and also includes maintenance and replacement costs. The estimate of investment need is based on an analysis of how much countries would have to spend if they wanted to match the performance of their best-performing peers by income group, controlling for economic and demographic differences and the quality of current infrastructures.

## Canadian Farmland

The Canadian agricultural sector provides compelling and unique investment opportunities, and is a part of a broad, dynamic industry centrally important in the context of global food security. Canadian farmland has shown its ability to be an effective inflation hedge over time, experiencing significant value appreciation in 2022. Given the long-term nature of the asset class, broader macro trends largely dictate its performance.

As a major agricultural producer and exporter, Canada is a leading supplier of traditional cold-weather crops such as wheat and canola across the globe. However, higher-value permanent crops such as apples, berries and stone fruits are increasingly being grown in Canada as growing conditions continue to become more accommodative as a result of climate and weather shifts. Additionally, Canada has access to ample renewable freshwater, while the availability of water is posing a challenge to many other major agricultural regions in the world. Increasing crop yields associated with longer growing seasons, opportunities to successfully cultivate new and higher-value types of crops, and the relative sustainability of water resources, are key factors that uniquely position Canada relative to other agricultural geographies. As Canada begins to produce more food for the global market and food supply shortages increasingly impact countries across the globe, Canada will likely become an even more significant player on the global stage.

# Disclaimers

All information herein is as of January 17, 2024 unless otherwise indicated.

All investing, including the alternative asset classes discussed in this publication, involves risk. The risk and return profile for each asset class can vary. Investors should consult their investment advisor, tax, legal, accounting, or other advisors about such information before making any investment decisions.

Past performance does not guarantee future results; no representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment.

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Any offer or sale of securities of the Obsiido Portfolios will be made according to the Obsiido Portfolios' Offering Memorandum to eligible "accredited investors" or Obsiido Direct clients under applicable Canadian securities laws. As with any other investment, there are risks to investing in the Obsiido Portfolios. Read the Offering Memorandum before investing.

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**About Obsiido Alternative Investments Inc. ("Obsiido")**

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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