Brockenbrough

Semi-Annual Private Investment Commentary **April 2024**

During 2023, investors in private markets experienced a wide array of outcomes largely determined by their respective exposures to different areas of private investments. As the retrenchment in the technology sector continued, those who had larger allocations to venture capital and growth equity funds, in particular, likely experienced relatively lower returns during the year. While performance data for the fourth quarter is not yet fully available, the only segments of private investments that generated positive year-to-date performance through the third quarter of 2023 were strategies focused on generating cash flow yields: mostly private credit and private infrastructure funds.

There have been many discussions on how much deal activity has dropped. With the pace of distributions remaining relatively low, many investors are experiencing negative cash flows (more capital going out than being added back to their portfolios) and finding themselves adjusting their forecasting models.

Thematic Insights

Non-traditional Private Equity Fund Structures

While we are still finding compelling opportunities in traditional limited partnership structures, we have noticed an uptick in the number of high quality, non-traditional structures such as limited liability corporations. While deal structure is important, particularly for investors with tax considerations, our primary objective is finding investment opportunities that are highly accretive, net of all fees and expenses. In today's environment, we believe our ability to remain flexible and open-minded is paying dividends. The challenge for many investors, particularly large pools of capital, is they often do not have the flexibility to invest in these alternative types of structures. To this end, we are finalizing diligence on a compelling West Coast-based buyout manager with an evergreen fund structure.

Sector Specialists

Our team recently attended an event with approximately 30 highly respected institutional investors, who gathered to share best practices and compelling investment ideas for 2024. While many attendees agreed there is a large degree of uncertainty around various topics such as inflation and the political outlook in the U.S., there was a clear consensus view that sector specialists will continue to have a higher probability of generating outsized returns as compared to generalist firms.

Several research studies have been published that concur with this thesis. One was written back in 2014 by Cambridge Associates, in which it showed that "…investments executed by sector specialists generated an aggregate 2.2x MOIC, handily outperforming generalist investments that generated an aggregate 1.9x MOIC"[1]. A more recent analysis[2] in 2023 from Mantra Investment

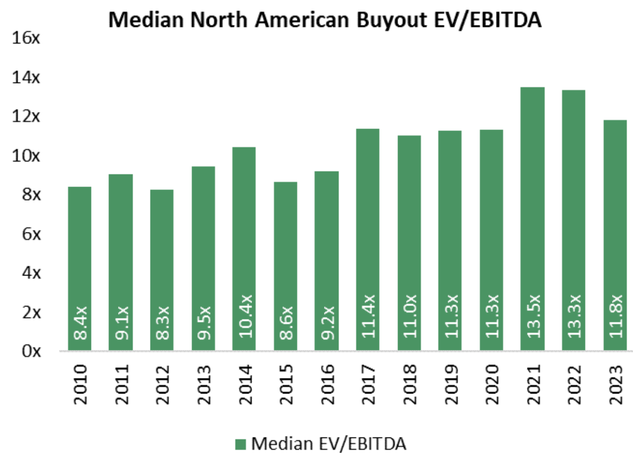
[1] Cambridge Associates: Declaring a Major: Sector-Focused Private Investment Funds
[2] Institutional Investor: Small, Esoteric Private Equity Strategies Keep Crushing It

Partners ("Mantra") shared the same conclusion. In a related article released earlier this month, Mantra added to their research about the attractiveness of sector specialists with another key attribute[3]: strategies with less than $350 million in assets "…meaningfully outperformed bigger funds".

Our Bespoke Private Strategies platform has invested in and will continue to invest in sector specialists. We like the fact that their fund sizes tend to be smaller than generalist firms, and the teams are often led by operators who have a high degree of technical knowledge about the industries in which they are investing. All are core fundamental characteristics we seek from prospective managers.

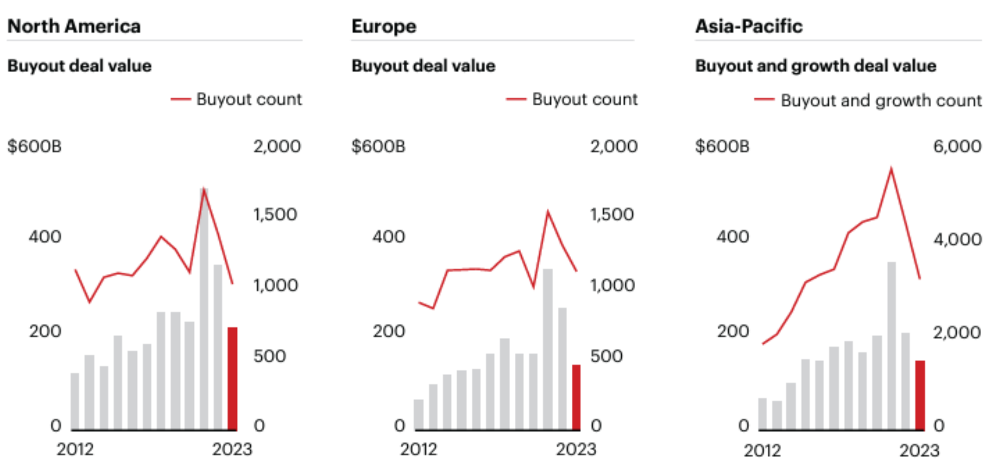
Private Equity Buyout

Since valuation multiples tend to be inversely correlated to interest rate moves, multiples have continued to trend down from peak level, albeit perhaps not as fast as some may have predicted.



Source: PitchBook, 2023 Annual US PE Breakdown

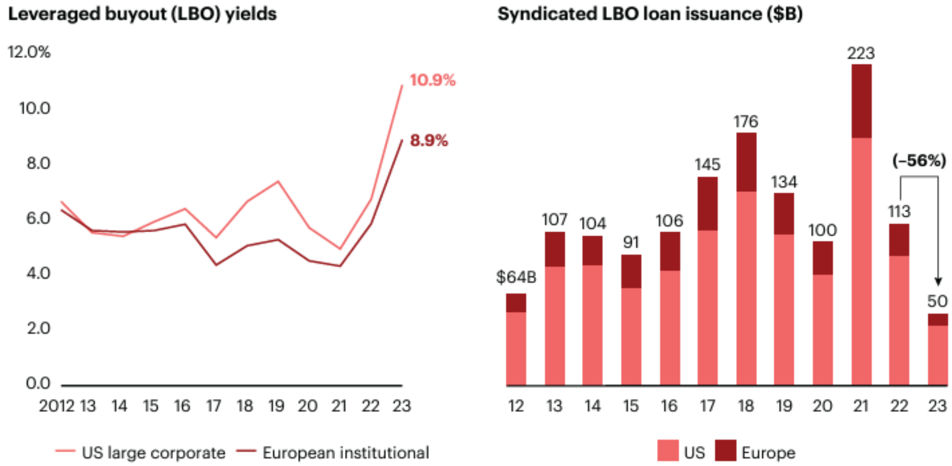
Pressure on multiples is also likely due to the continued, limited exit activity resulting in a relatively small sample of transactions of only the highest quality deals. As seen in the charts below[4], buyout deal activity across the globe dropped significantly in 2023 compared to 2022:



Large / mega buyouts, an area in which we typically do not invest, have been particularly impacted by the current environment. Most often, these transactions are dependent upon a healthy lending market to finance deals. Elevated interest rates and ongoing uncertainty around

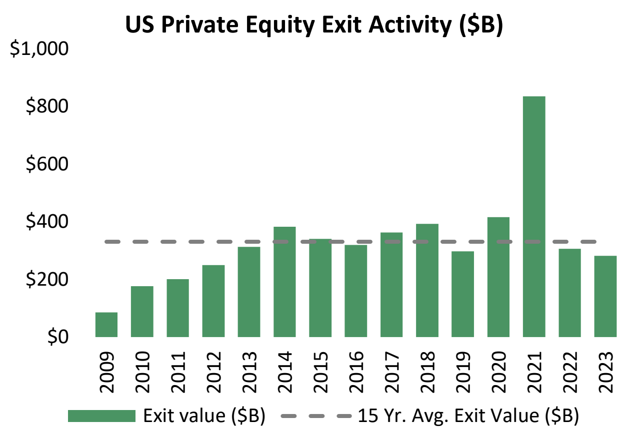
[3] Mantra Investment Partners: The Best-Performing Private Equity Funds Share These Two Attributes
[4] Bain & Company: Global Private Equity Report 2024

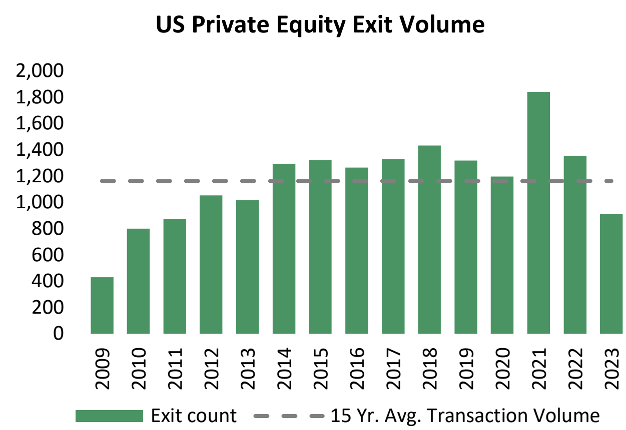
the outlook for the global economy have put upward pressure on yields for leverage bank loans. In turn, syndicated leveraged buyout (LBO) issuance has dramatically declined.



Notes: European institutional spread includes all tracked LBO deals, regardless of size; US large corporate defined as LBOs with more than $50 million in EBITDA; Europe syndicated loan volume converted using euro/US dollar conversion rate of 1.076
Sources: LCD; LSEG

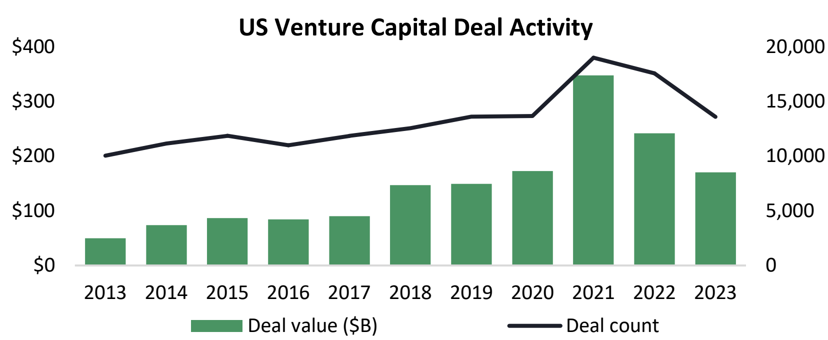
Both in terms of dollar value of total transactions and number of transactions and, exit values were lower in 2023 than both the previous year and each metric's trailing 15-year averages[5]:





Venture Capital / Growth Equity

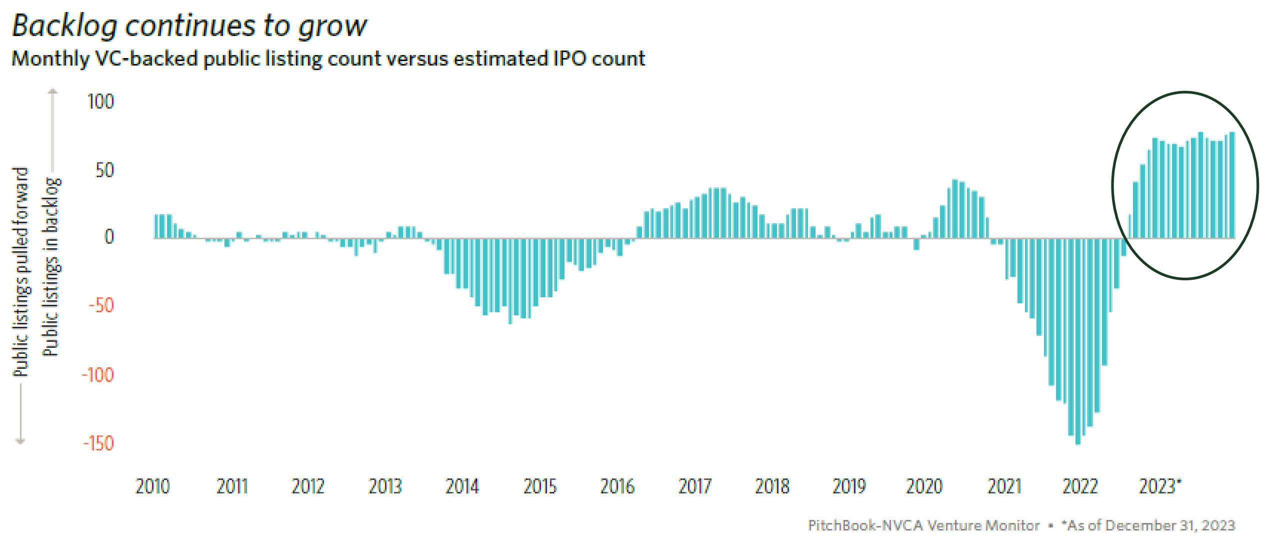
Through year-end, the state of the venture capital market has remained relatively unchanged since our last update. As seen in the following chart[6], deal activity remains below peak levels:



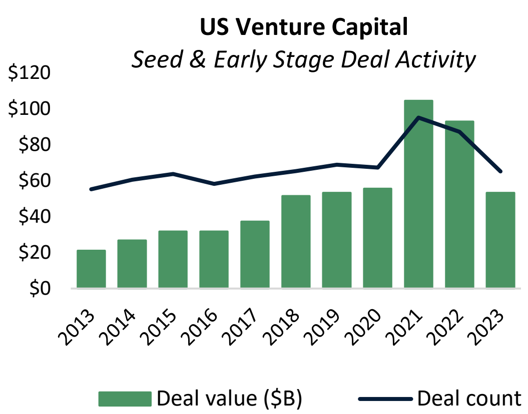
While there were positive signals in 2023 that tailwinds may be returning for VC-backed companies, such as the strong performance in the public markets and a late year jump in the Russell 2000 index, a material recovery has yet to be seen. One driving factor in the recovery for

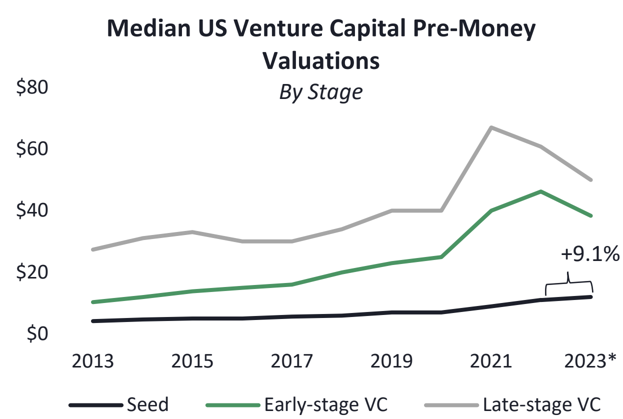
[5] PitchBook: 2023 Annual US PE Breakdown
[6] PitchBook-NVCA Venture Capital Monitor, Q4 2023

the later stage venture capital market is the IPO market. According to data from PitchBook[7], the excess backlog of companies seeking to go public is at its greatest levels in over a decade:



Similar to the overall market, deal activity in seed and early stage companies was down in 2023. However, for the seed stage deals that were completed during the year, data[7] suggests that investors were willing to continue to support the best founders and pay for this access.





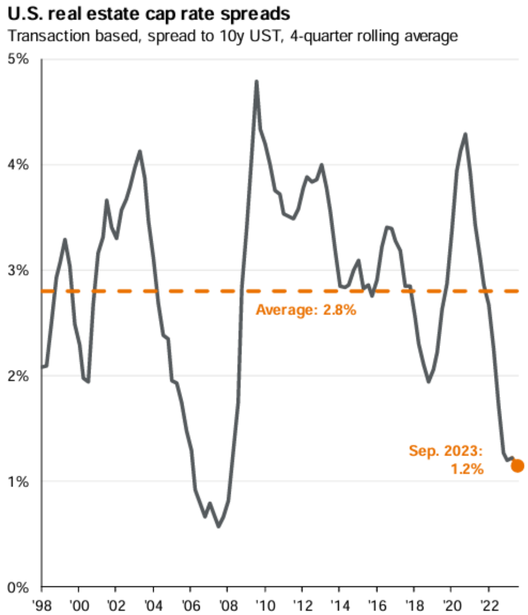
Real Assets

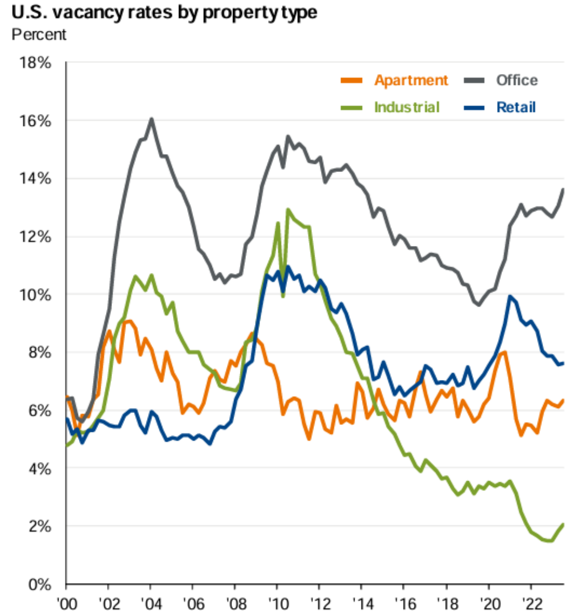
Real Estate

Updated real estate market data[8] on the following page shows the broader real estate market in a continued state of structural pressure, with cap rates remaining compressed. Vacancy rates (mostly driven by supply and demand across sub-markets) in office and industrial properties ticked up further in recent quarters.

[7] PitchBook-NVCA Venture Capital Monitor, Q4 2023

[8] NCREIF, NAREIT, Statista, JP Morgan; Vacancy data as of Sep. 30, 2023; other data as of Dec. 31, 2023



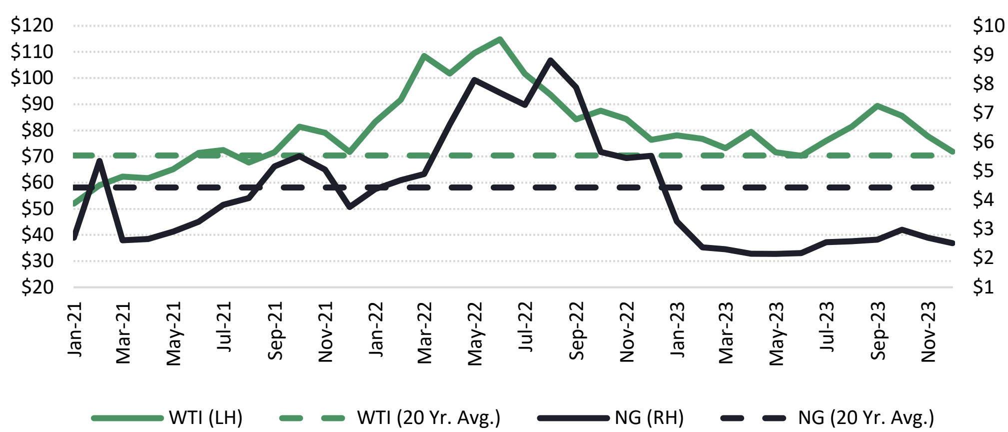


Energy / Natural Resources

Commodity prices remain in focus for many as they impact inflationary measures and are factored into the Fed's rate cut decisions. As seen in the following chart, oil prices experienced an approximate 6% decline in 2023[9]. Trending towards its 20-year average price per barrel, oil prices look to be trading in-line with overall supply and demand fundamentals. Natural gas prices, however, continued to free-fall during 2023 as prices were down over 50% for the year. Current excess supply (inventory levels) and estimates for near-term demand (driven by domestic consumption) remain unbalanced and will likely continue keep pressure on natural gas prices.

Monthly Spot Prices for WTI Crude Oil & Henry Hub Natural Gas

Trailing Three Years Ending December 2023



We hope that this semi-annual letter serves as a helpful reference on the current market conditions and our approach to investing in private markets. Once we have final valuations for the fourth quarter, we will provide an update on each vintage year and the overall the Bespoke Private Strategies platform. Our team members are always available to answer any questions. Thank you for your continued interest and support.

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[9] U.S. Energy Information Administration

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