Brockenbrough

Semi-Annual Private Investment Commentary **May 2025**

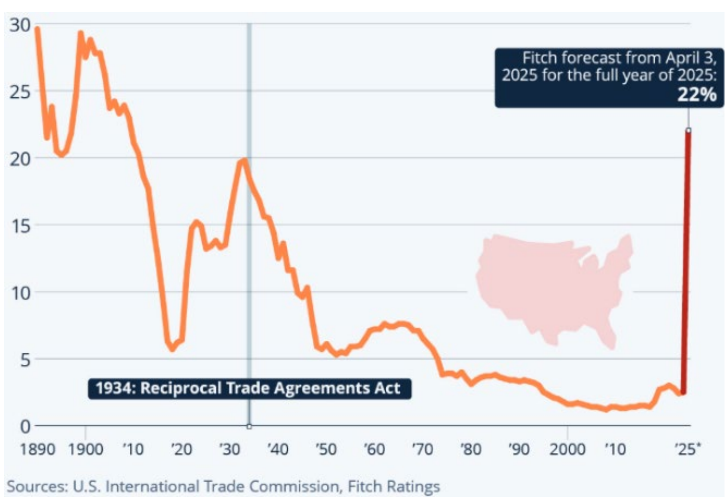
As we near the end of the first six months of the second Trump administration, private markets are slowly adjusting to the new realities of ongoing trade wars and a higher-for-longer interest rate environment. For many investors in private markets, the ongoing lack of liquidity has put further constraints on their ability to materially reinvest new capital while those with dry powder find themselves in an opportune position to play offense in selective areas of the market. Fortunately, these investors have been helped by a robust public equity market that continued to post better-than-expected results for the calendar year 2024 and thus far in 2025.

Over the trailing four quarters, ending December 31, 2024, overall private markets posted positive results[1]. For the segments within private markets that are more highly correlated to the public markets, particularly late-stage venture capital and growth equity funds, notable performers by industry include financial services, consumer, and health care companies. Private real estate funds continue to face headwinds, posting negative returns over the trailing four quarters.

Thematic Insights

Tariffs and Big Tech CapEx Spending

Since the start of the new Trump administration, U.S. trade policy has been at the center of most discussions and resulted in short-term volatility within the broader public equity markets. As seen in the following chart, the average effective U.S. tariff rate has reached its highest point in the last 100 years[2]:



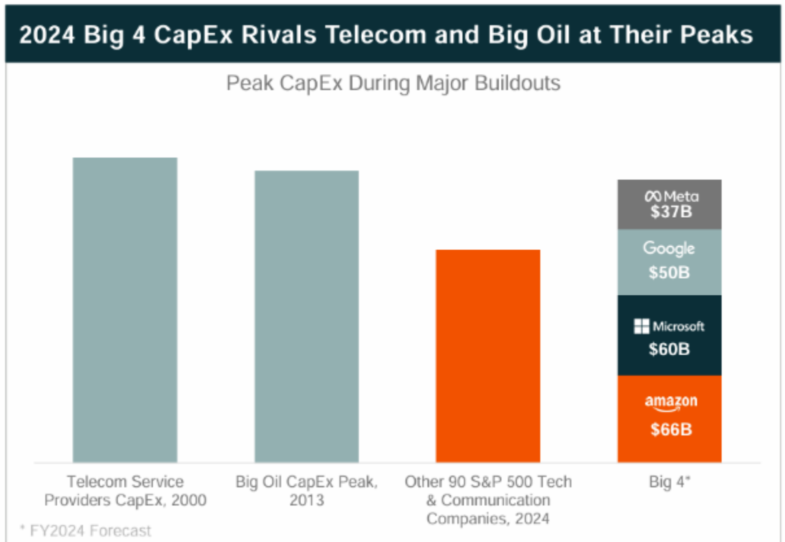
The long-term extent of the impact of these tariffs is still to be determined, with a likely result of many companies delaying previously scheduled capex spending. While we are closely monitoring, managers within our Private Investment platform have not yet seen any material impact from these tariffs on their

[1] Source: MSCI / Burgiss Private Capital Intel

[2] Source: Census Bureau, U.S. International Trade Commission, Tax Foundation, April 2025.

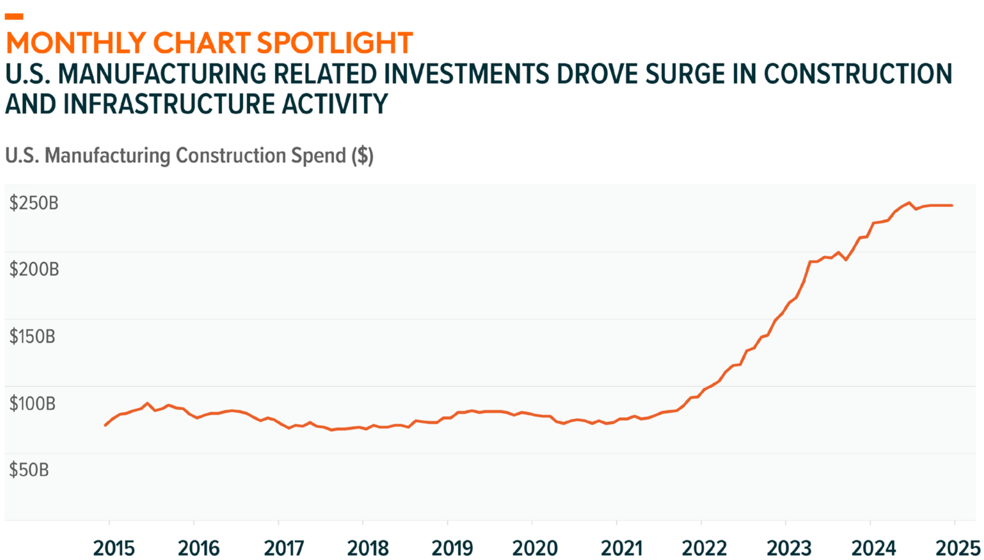
underlying portfolio companies. Inevitably, the question for most investors in private equity is whether these tariffs will delay what was expected to be a pivotal year for the exit environment.

What is clear, however, is that the capex spending by the Big 4 technology companies has been significant[3]:



U.S. Manufacturing

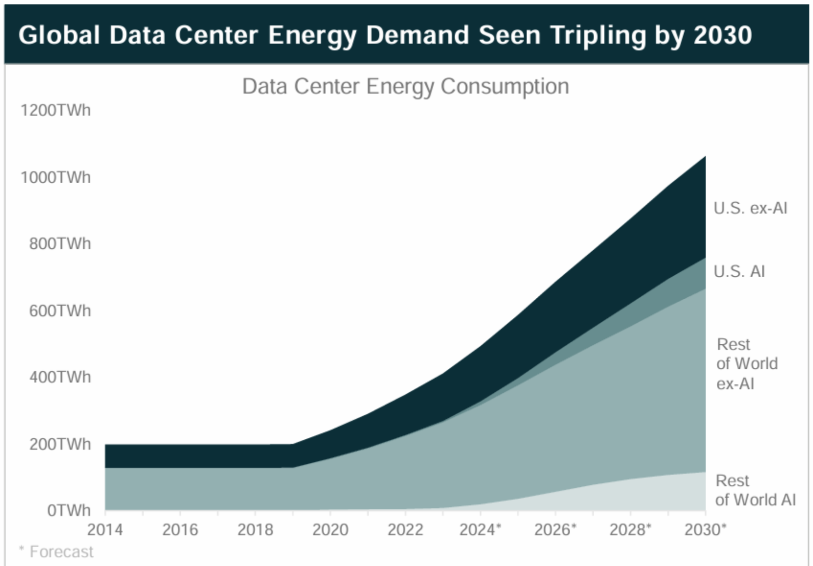
The resurgence in the U.S. manufacturing industry has resulted in a significant increase in construction spending in recent years:



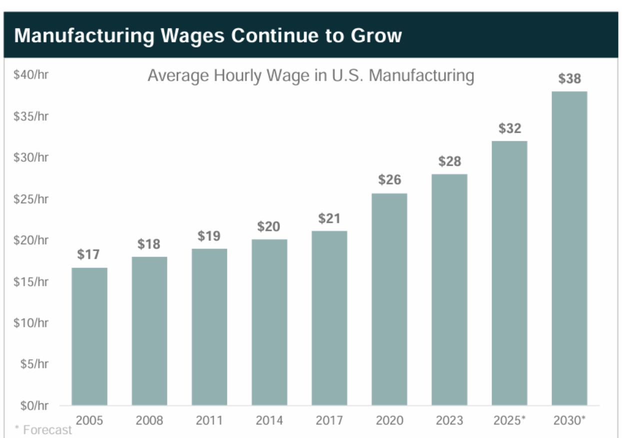
Sources: U.S. Census Bureau. (2025, Feb 28). Total Private Construction Spending: Manufacturing in the United States. Federal Reserve Economic Data.

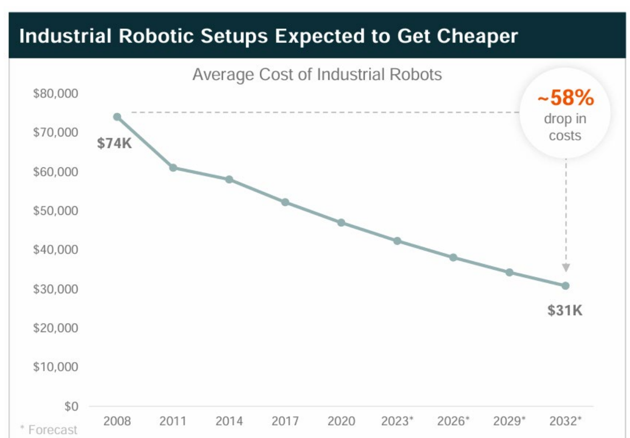
[3] Forthlane Partners, Andrew Sarna, Off the Charts: Global X Next Big Theme Report

The Big 4 technology companies are a major driver of this growth. Apple, for example, announced a $500 billion investment within the United States over the next four years, aiming to bolster domestic manufacturing, innovation, and job creation[4]. In addition to advanced manufacturing facilities, many of these large technology companies are also hyper-focused on building dedicated data centers and energy sources to power them. Reliable, readily available energy will be critical over the coming years as energy demand from data centers is projected to triple by 2030[5]:



One of the major challenges that the U.S. manufacturing industry faces, however, is the average hourly cost of a U.S. manufacturing worker[3]. This will likely lead to the continued adoption of automation and use of advanced robotics. Fortunately, the costs of these systems are expected to decline[5].





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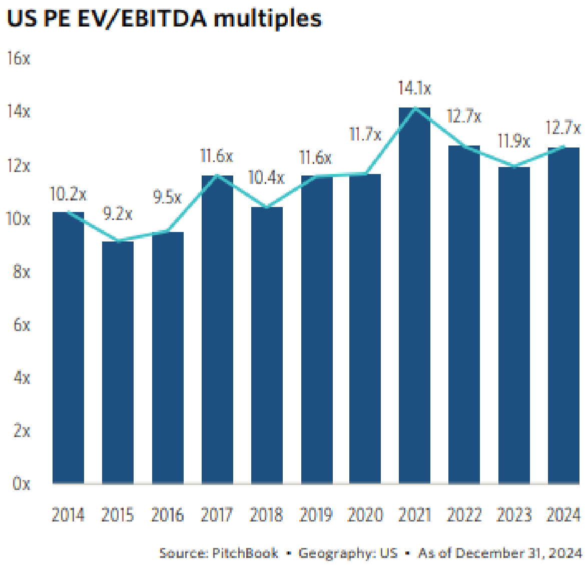
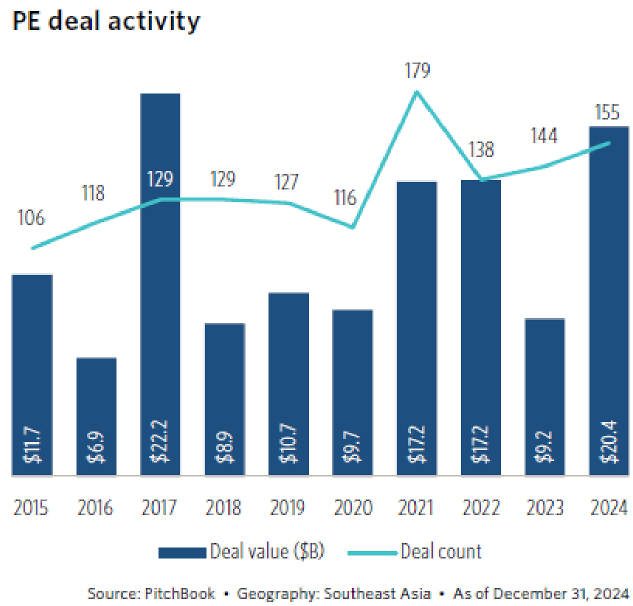
[4] https://www.apple.com/newsroom/2025/02/apple-will-spend-more-than-500-billion-usd-in-the-us-over-the-next-four-years/

[5] Forthlane Partners, Andrew Sarna, *Future Trends*, https://open.substack.com/pub/offthecharts/p/future-trends?utm_campaign=post&utm_medium=web

Private Equity Buyout

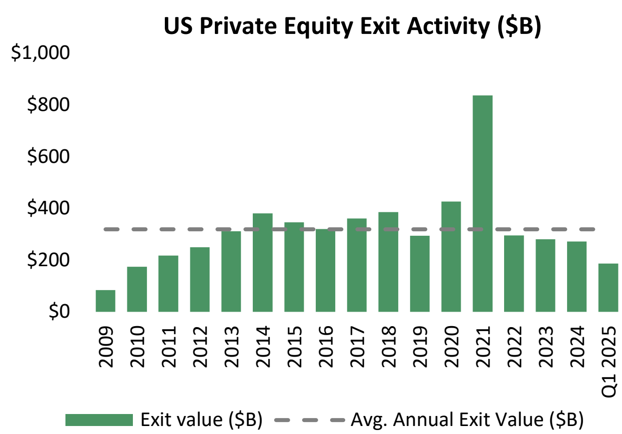
Based on the most recent data available from PitchBook[6], valuation multiples in the U.S. buyout segment remained elevated through the end of 2024. After having seen much lower deal activity in 2023, notably congruent with the rise in interest rates, deal activity picked up in 2024 as the Fed began to cut rates:

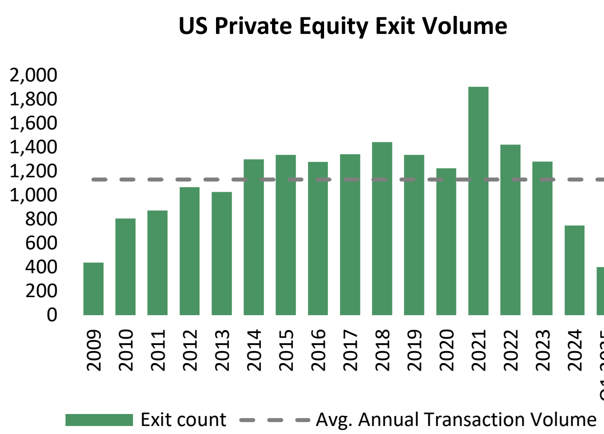




While activity looks to have picked up so far in 2025, the continuation of this trend will likely depend on several factors, including further geopolitical uncertainty and monetary policy.

In simplistic terms, investors need liquidity. Liquidity creates a flywheel effect, providing capital to re-invest and improving investor sentiment. The following charts show that exit values continue to trend below historical averages[7], both in terms of the dollar value of total transactions and the number of transactions.



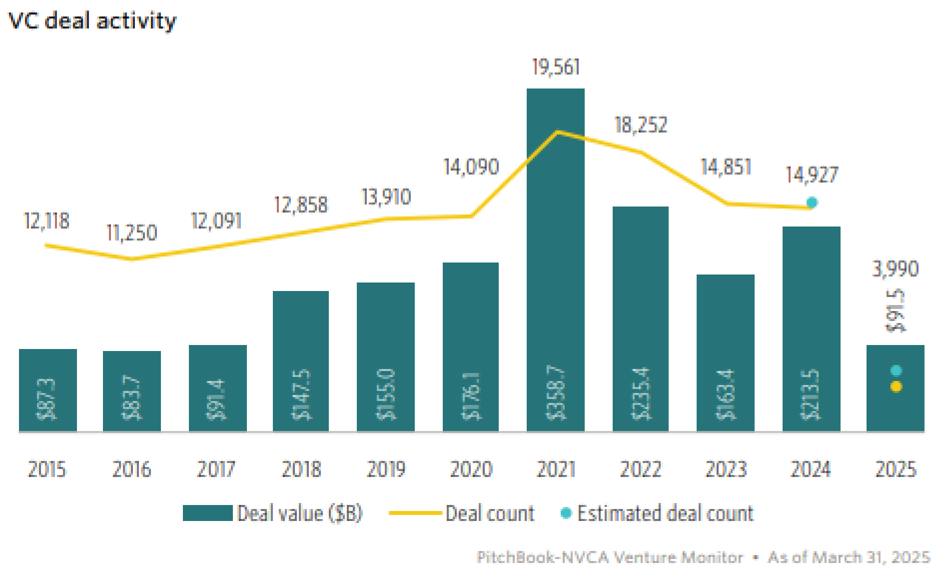


Data for the first quarter shows promising signs early on in 2025. While we caution to not always read too much into only one quarter of data, on an annualized basis, the Q1 2025 data would result in these levels trending above historical averages.

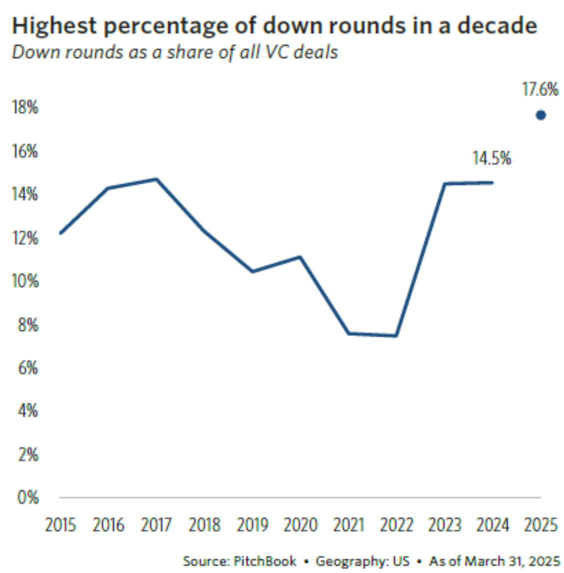
[6] PitchBook: Q1 2025 US PE Breakdown Report
[7] PitchBook Q1 2025 US PE Breakdown

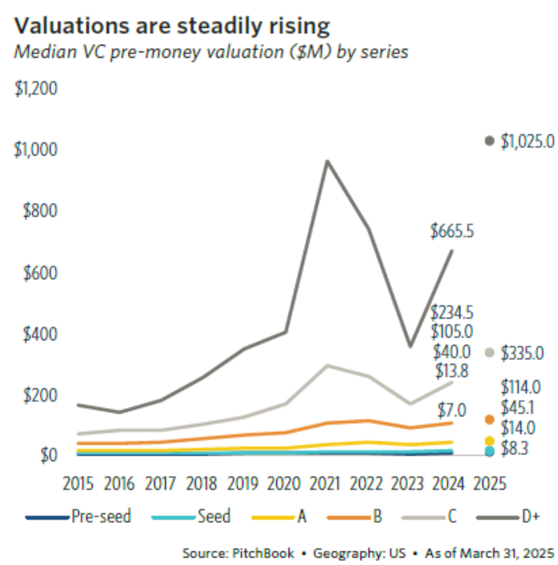
Venture Capital / Growth Equity

Deal flow activity in the venture capital market remains steady and in-line with levels we have seen in recent years[8]:



One valuation metric we watch closely, particularly during periods of dislocation, is down rounds. Down rounds represent follow-on funding rounds for venture-backed companies where the valuation is lower than the previous round. As the recovery in the venture capital market has elongated relative to original expectations, companies hoping to extend runways without lowering their valuation expectations must eventually face reality and adjust accordingly. According to recent data from PitchBook, the percentage of down rounds relative to all venture capital deals during the first quarter reached its highest level in a decade[9]:



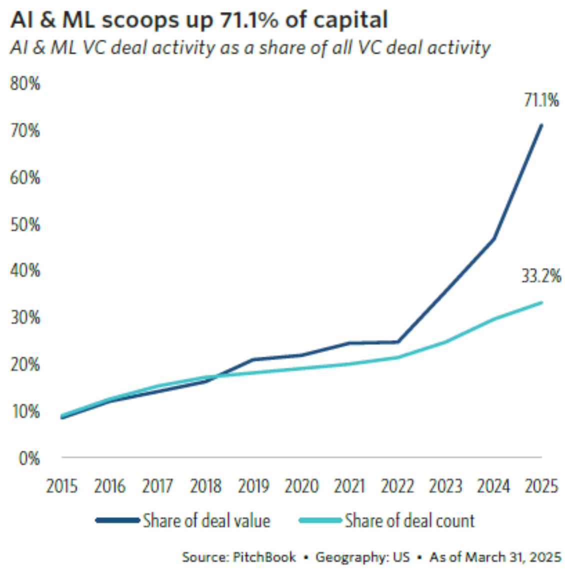


[8] PitchBook-NVCA Venture Capital Monitor, Q1 2025

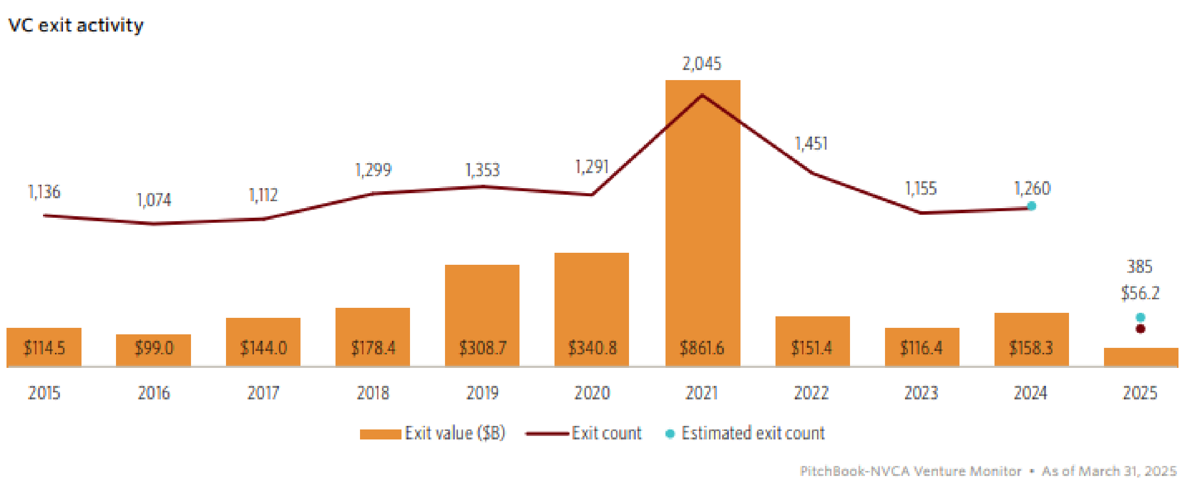
[9] PitchBook: Q1 2025 US VC Valuations and Returns Report

The interesting, and starkly contrasting data point to the above chart, is the fact that we are still seeing a climb in median pre-money valuations in venture capital[9]:

Diving deeper into the data, what is revealed is the headline, median pre-money valuations in venture capital are being driven by deals in Artificial intelligence / machine learning ("AI/ML") companies. Across other sectors, the venture capital market mostly remains under pressure. In fact, during the first quarter of 2025, AI/ML companies continue to comprise the largest percentage of deal value in the venture capital space[9]:



While investment activity in venture capital seems to have stabilized, what has yet to recover is exit activity[10]. The lack of a robust IPO market and the continued divergence in the bid/ask spread between buyers' and sellers' have negatively impacted liquidity:



Perhaps one silver lining from the lack of exits is the resulting impact on investor sentiment, particularly for new capital being invested into the venture capital space. As a result, less capital is being committed

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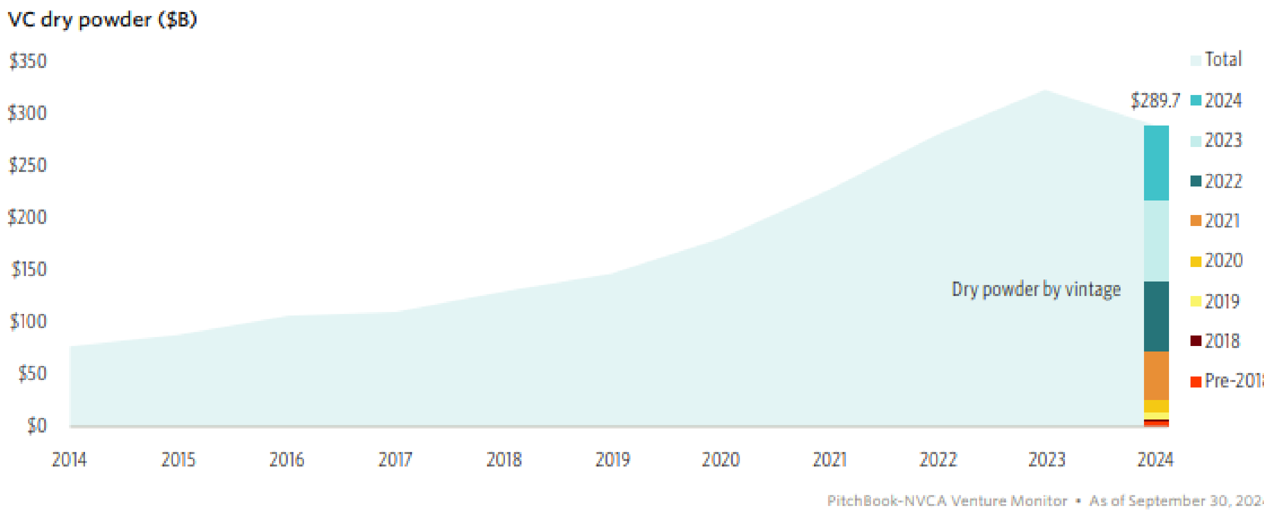
[10] PitchBook-NVCA Venture Capital Monitor, Q1 2025

to venture capital funds, and we are starting to see a reduction in overall dry powder within the U.S. venture capital market[10]:



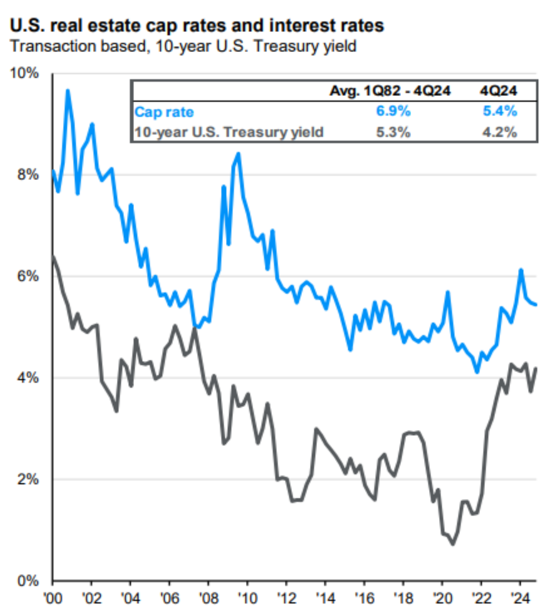
Real Assets

Real Estate

We continue to maintain a fundamentally cautious view on the real estate market and have not actively deployed new capital into real estate assets in over five years. Our view continues to be driven by several factors, with an important driver being estimates for forward-looking returns (both on an absolute and relative basis vs. other opportunities in private markets).

One metric supporting our thesis is cap rate spreads, which we regularly provide an update on in our letters. Tracking cap rate spreads (implied cap rate / 10-year U.S. Treasury yield) is important for a real estate investor as an assessment of a property's yield potential over a certain period relative to what you could earn investing in a "risk-free" investment.

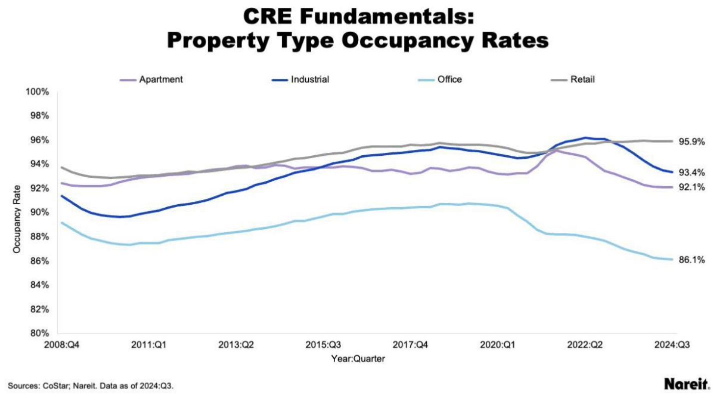
Since our last letter, nothing has materially changed with regards to cap rate spreads. Across the U.S. real estate market, cap rate spreads remained tight through the end of 2024[11]:



[11] NCREIF, JP Morgan; data as of February 28, 2025.

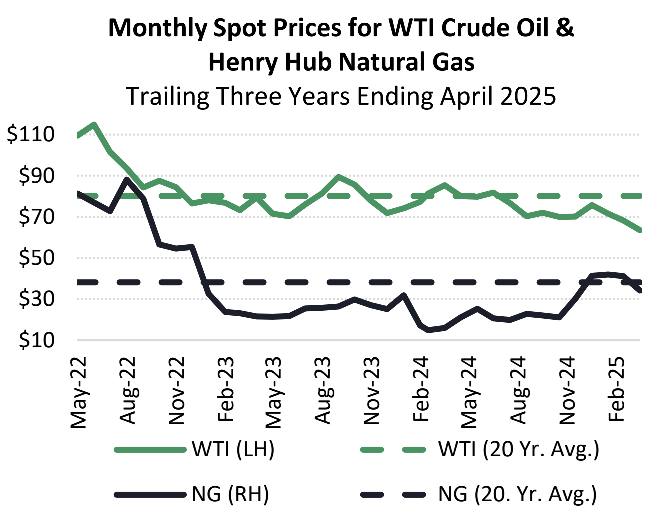
Many factors can influence a property's cap rate, including interest rates, rent growth, overall economic indicators such as GDP, and property-specific characteristics such as location and property type.

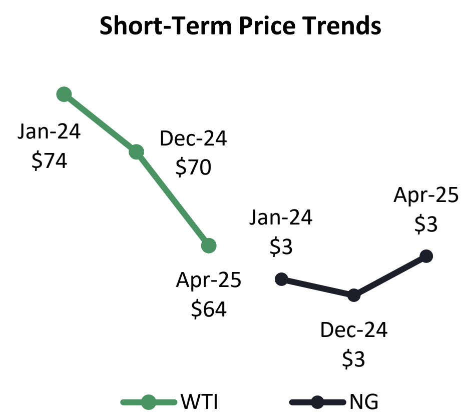
Our current views on the real estate market are further supported by increasing vacancy rates (mostly driven by supply and demand dynamics across sub-markets) across most sub-categories. As seen in the following chart, all segments except for retail (which has recovered from the COVID lows) have seen further deterioration in occupancy rates. Even with return-to-office policies enacted by many companies, the overall weakness in office employment growth continues to weigh on the sector. In fact, the office sector has now experienced its fifth year of declining tenant demand[12].



Energy / Natural Resources

Oil prices were down approximately 5.4% for the calendar year 2024[13], trending below the 20-year average price per barrel as overall macro-related headlines weighed the outlook for projected demand. Throughout 2024, natural gas continued to trend below its historical 20-year average pricing level. After a much colder winter pattern in late 2024 and into early 2025, natural gas prices rebounded near the end of 2024, up approximately 13.6% through the end of April 2025. What is even more staggering and shows just how volatile commodity markets can be is that natural gas prices, on a YoY basis ending April 2025, were up over 100%.





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. Our team members are always available to answer any questions. Thank you for your continued interest and support.

[12] Crow Holdings, 2025 Real Estate Outlook

[13] U.S. Energy Information Administration

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