Truist Advisory Services, Inc.

Private Market Views from the Investment Advisory Group

Second edition
October 17, 2022

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Introduction

This publication provides our latest views on the state of the private capital markets and our perspective on potential opportunities for investors. Please contact your Truist advisor to learn more, and for guidance on how our views may help shape your portfolio.

Private equity market update

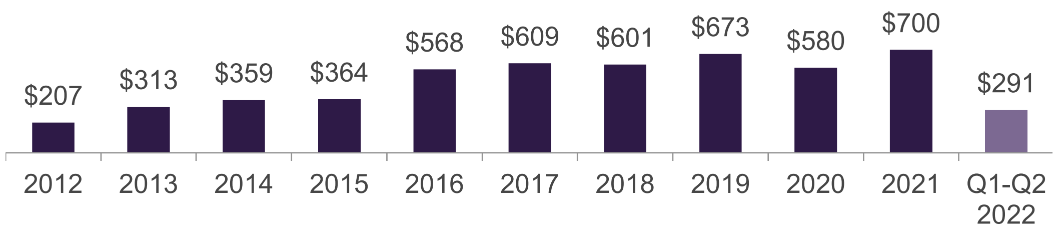
The fundraising environment has become crowded. More general partners have been returning to market seeking capital following a record-shattering deployment year in 2021.

- Global private equity (PE) fundraising maintained its pace in the second quarter of 2022 and is inching closer to last year's total despite heightened volatility and uncertain economic forecasts. The trend of growing private market allocation targets is proving to be more durable than predicted based on historical fluctuations as it will likely still surpass the 5-year low reached in 2020.
- Emerging managers—those who have raised three or fewer funds—have accounted for 38% of total commitments this year demonstrating an increasing volume of options for investors, and an eagerness to search for alpha outside of crowded mega-funds with $5 billion or more in commitments to deploy.

Private equity is set to experience a stern test over the coming quarters as financial market conditions deteriorate on higher interest rates and waning risk appetite.

We provide perspective on prospects in opportunistic investments in infrastructure, qualified opportunity zones, and secondaries in the following sections.

Global private equity fundraising
USD billions excluding venture capital



Data Source: Truist IAG; Preqin Pro

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Economic headwinds affect IPO and exit activity

The initial public offerings (IPO) market has slowed dramatically in 2022. Global IPO volume this year saw only 630 IPOs raise $95.4 billion, reflecting a decrease of 46% year over year. The backdrop for this weakness has been:

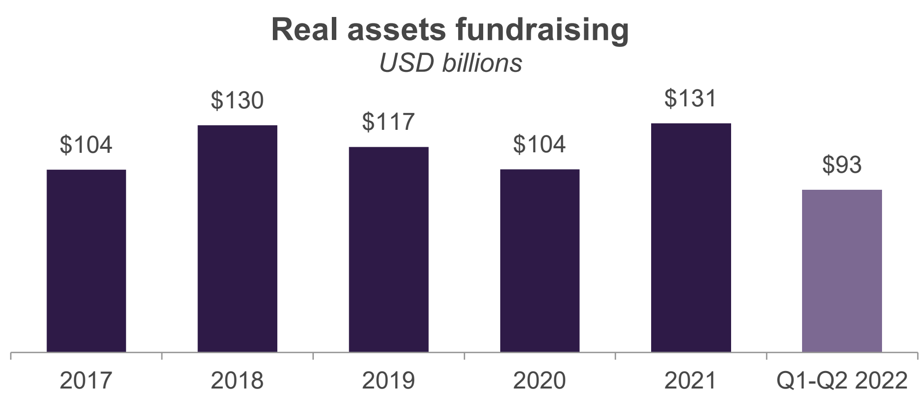
- Heightened volatility caused by geopolitical tensions and the global economic slowdown
- And declining valuations and poor post-IPO share price performance following a record-breaking year for IPOs in 2021

These headwinds have also affected PE exit activity resulting in a 37% decline year-to-date. However, when IPOs and dealmaking stalls, the volume of public-to-private buyouts typically increase as valuations are pressured. Through August 2022, 32 take-private deals have been completed, totalling more than $87 billion in value.

Real assets overview

Real assets (also known as hard assets) are typically tangible in nature and generally provide inflation protection. These include commodities, precious metals, real estate, and infrastructure (which encompasses broad listed infrastructure), energy infrastructure, utilities, and more.

- In the second quarter of 2022 managers in this growing asset class have raised $44.2 billion across 19 funds and are on pace to overtake 2021's fundraising totals.
- Larger established funds, which have the advantage of major regulatory barriers for new entrants, are ballooning with this recent interest. In the first half of 2022, more capital has been raised for funds in the $5 billion-plus size bucket than in any other full year.



Data Source: Truist IAG; Pitchbook Q2 2022 Global Private Markets Fundraising Report.

Infrastructure investing

Following the global financial crisis, infrastructure investing shifted from a generic private equity risk allocation to a more defined allocation that considers the varying risk profiles of infrastructure assets.

Infrastructure's steadfast performance during macroeconomic turmoil was proven during the pandemic. Now it's driving a fundraising furore in the face of a potential recession on the horizon, rising interest rates, and uncomfortable levels of inflation.

Two $15 billion infrastructure funds were the top funds closed in Q2 2022.

- The first was ISQ Global Infrastructure Fund III, a U.S.-based value-added fund raised by I Squared Capital, working to "expand equitable access to sustainable and resilient infrastructure" globally.
- The second was Brookfield Global Transition Fund, a Canada-based opportunistic fund, and the largest private fund ever raised with the aim of supporting the transition to a net-zero carbon economy.
- Additionally, 96.2% of real assets capital was raised by infrastructure funds in the first half of 2022, with only 2.1% going to oil & gas.

New proposed qualified opportunity zone (QOZ) legislation

In April, a bipartisan bill was introduced in the Senate and the House proposing changes to the QOZ program (referenced in *Private Market Views first edition*). The Opportunity Zones Transparency, Extension, and Improvement Act (the QOZ Extension Act) would improve the current QOZ tax benefits to incentivize investors and re-emphasize the focus on low-income areas.

The QOZ Extension Act would extend the deferral period two years from December 2026 to December 2028 (the 2028 cut-off date), with deferred taxes being due in April 2029. In addition to promoting further investment in qualified opportunity funds (QOFs), the extension would provide QOFs with additional flexibility.

- It would provide QOFs with longer development timelines and future QOFs with more flexibility to complete, stabilize, and refinance their projects.
- This allows them to provide distributions to investors before the deferred taxes would be due in April 2029, as opposed to April 2027.

In a further effort to promote additional investment in QOFs, the QOZ Extension Act would reinstate and modify the step-ups.

- Investors would be eligible for the 15% step-up if they invest in a QOF before the end of 2022 and hold their investment for at least six years prior to the proposed 2028 cut-off date.
- Furthermore, these changes would benefit current QOF investors who were not eligible for the full 15%, or even the 10% step-up when they invested.

Whether and when the bill will pass is unknown, but supporters hope it will be less than the two-year period it took the IRS to finalize the original regulations.

Secondary market opportunity

There's significant uncertainty in financial markets resulting in lower public and private asset valuations. However, our analysis shows that certain circumstances such as short-term liquidity needs, and institutional portfolio weighting policies can create attractive opportunities in the secondary market. In particular, those buyers with deep experience in deploying capital during market disruptions or dislocations can take advantage.

Overall, the market is experiencing a modest decline in secondary market volumes as asset owners and general partners await second quarter 2022 valuations, which should help to calibrate pricing and terms for transactions going forward.

Looking ahead, we expect the current market turbulence to create a strong supply of secondary investment opportunities.

General partner led secondaries investing

General partner (GP)-led secondaries, also referred to as continuation vehicle transactions, are initiated when a fund sponsor sells an attractive asset from a fund it already manages to its newer vintage.

- The advantages to the fund and investor (which generally have the option to receive cash if preferred) are longer holding periods for investments with strong outlooks.

This growing segment is a compelling way for managers to resolve competing priorities, and we expect a robust pipeline of attractive GP-led secondaries in the near term.

- As we see it, given the current macroeconomic and market conditions, in order to capitalize on the evolving opportunity set secondary buyers will need deep experience, a wide network of relationships with prominent GPs, and access to opaque deal flow and secondary market information.

In our view, the strategic value of the secondary market is as a liquidity source and portfolio management tool for both limited partnerships (LPs) and GPs, especially during periods of elevated volatility and uncertainty, and will contribute to an attractive environment for well positioned buyers.

Conclusion

Looking ahead, strong headwinds from market volatility as well as geopolitical and macroeconomic uncertainty are likely to remain. As noted, private equity is set to experience a stern test over the coming quarters.

In our view, private equity and opportunistic investments in asset classes such as infrastructure, qualified opportunity zones, and secondaries will continue to play an integral role with respect to overall portfolio construction for qualified investors as they look to build durable long-term portfolios.

Disclosures

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Private placement limited partnerships and funds of funds, or other types of long term investment vehicles are typically illiquid. The terms of the agreements governing these investments generally provide for significant notice periods, lock-up periods, holdbacks upon redemption, and other provisions that make prompt liquidation of these investments contractually impossible. It may often take several months, a year or even longer to process redemption in these situations.

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CN 2022-5047607.1 EXP 10-2023